

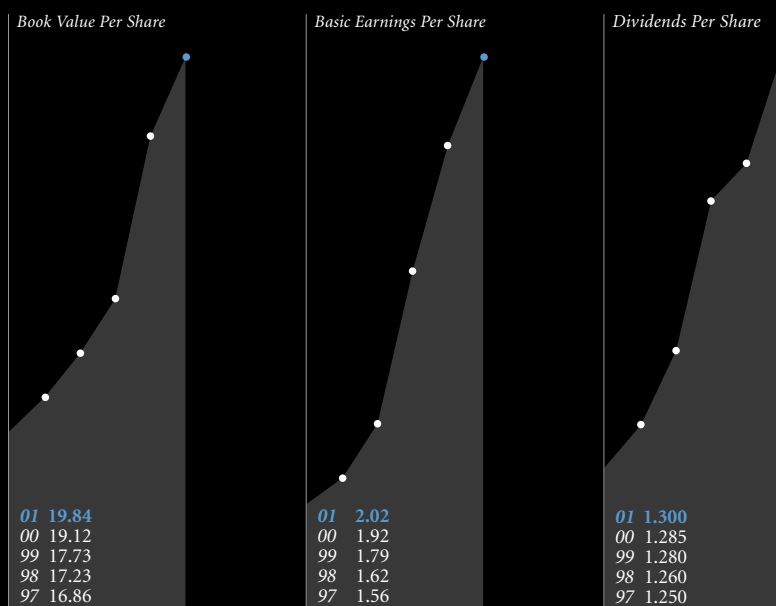
2001 Annual Report
AMERICAN STATES WATER COMPANY



630 East Foothill Blvd.
San Dimas, California 91773-1212
909-394-3600 www.aswater.com

American States Water Company is engaged in the business of holding, for investment, the stock primarily of utility companies. The company's principal investment is the stock of Southern California Water Company, a California public utility company that provides water service to 246,800 customers and electric service to 21,800 customers in the state of California. During 2001, Southern California Water Company accounted for 96% of consolidated revenues and 97% of consolidated net income. The company also owns the stock of Chaparral City Water Company, an Arizona public utility that provides water service to 11,400 customers located in the Town of Fountain Hills. American States Utility Services, Inc., a California corporation, provides contract services to municipalities and others serving over 90,000 customers. AWR provides an attractive total return potential for long-term, income-oriented investors seeking upside potential in share ownership. Dividends have been paid on common shares each year since 1931 and annual amounts received by shareholders have increased each year since 1953. The company's shares are listed on the New York Stock Exchange, traded under the ticket symbol "AWR."

SELECTED FINANCIAL HIGHLIGHTS



<i>(in thousands, except per share amounts, ratios and percent)</i>	2001	2000	Variance	% Change	CAGR ¹ 3-Year
INCOME STATEMENT INFORMATION					
Total Operating Revenues	\$ 197,514	\$ 183,960	\$ 13,554	7.37%	6.7%
Total Operating Expenses	160,822	151,653	9,169	6.05%	5.3%
Operating Income	36,692	32,307	4,385	13.57%	13.4%
Other Income	(510)	(99)	(411)	415.15%	N/A
Interest Charges	15,735	14,122	\$ 1,613	11.42%	10.3%
Net Income	20,447	18,086	\$ 2,361	13.05%	12.7%
Preferred Dividends	84	86	(2)	(2.33%)	-2.3%
Earnings Available for Common Shareholders	20,363	18,000	2,363	13.13%	12.8%
Basic Earnings per Common Share	\$ 2.02	\$ 1.92	\$ 0.10	5.21%	6.2%
Fully Diluted Earnings per Common Share	\$ 2.00	\$ 1.91	\$ 0.09	4.71%	N/A
Dividends Declared per Common Share	\$ 1.30	\$ 1.29	\$ 0.01	0.78%	0.8%
BALANCE SHEET INFORMATION					
Total Assets	\$ 683,764	\$ 616,646	\$ 67,118	10.96%	13.2%
Net Utility Plant	539,842	509,096	30,746	6.04%	9.6%
Common Shareholders' Equity	199,982	192,723	7,259	3.77%	12.2%
Long-Term Debt (Net)	245,692	176,452	69,240	39.24%	21.2%
Preferred Shares	1,600	1,600	0	0.00%	0.0%
Preferred Shares Subject to Mandatory Redemption	280	320	(40)	(12.81%)	-11.8%
Total Capitalization	\$ 447,554	\$ 371,095	\$ 76,459	20.60%	16.8%
Book Value per Common Share	\$ 19.84	\$ 19.12	\$ 0.72	3.77%	5.8%
Average Shares Outstanding	10,080	9,380	700	7.46%	6.1%
Average Number Fully Diluted Common Shares	10,171	9,411	760	8.08%	N/A
OTHER INFORMATION					
Ratio of Earnings to Fixed Charges	3.26x	3.35x	(0.09x)	(2.69%)	-0.2%
Ratio of Earnings to Total Fixed Charges	3.23x	3.31x	(0.08x)	(2.42%)	0.0%
Return on Average Common Equity	10.40%	10.50%	(0.10%)	(0.95%)	1.0%
Earnings Before Interest and Taxes	\$ 51,561	\$ 47,335	\$ 4,226	8.93%	10.3%
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ 69,512	\$ 62,674	\$ 6,838	10.91%	11.4%

¹compound average growth rate



in a turbulent environment.

The water utility industry is a constant

The waters graphically depicted on the pages of this year's annual report are similar to the environment in which we operated during 2001. The ebb and flow of the

business cycle generally impacted many industries and companies as

worried customers sought ways to delay non-essential spending and concerned investors tried to protect the value of their investments in anticipation of even rougher waters ahead.



through the rise and fall of the business tides.

Stable and consistent

For American States Water Company, 2001 was a difficult year by most measures. But, through intense planning and swift action,

the results finally reported for the year have allowed us to confidently

look forward from a position of strength to take advantage of opportunities.



Our water and electric service has no substitute.

Our industry is basic to life.

We firmly believe that the company's dedication to its core water and electric businesses is the foundation of past and future success and investors can be pleased with their investment in American States Water Company. Our earnings outlook is positive, with price

appreciation potential for equity ownership. The excellent service areas in which we operate position us to capitalize on growth strategies. Management and all employees, confident in navigating the waters

of 2001, are driven by a renewed attitude to meet shareholder and customer expectations, regardless of future challenges.

We are a solidly performing company in a resilient industry.



Due to the nature of our core businesses, the water industry and our company have experienced consistent growth over the years and we are insulated, to a certain degree, from business cycle fluctuations. We have successfully met a variety of challenges during our 72-year history, but we are not content to rest on past accomplishments. Simply stated, our mission is to increase value through managing utility assets and services. This mission is as clear as the water we provide. And this too we will accomplish, through rough waters or still. You are invited to read the letter to shareholders to learn more about the results in 2001 and our strategies for the future.

TO OUR SHAREHOLDERS

The past year provided major challenges for business in general, the water industry and American States Water Company (AWR). We are very pleased to report to our shareholders and other major stakeholders that our experience, planning, strategy, and conservative business approach resulted in an outstanding success during our seventy-second year of business.

SOLID FINANCIAL RESULTS

Total diluted earnings available to common shareholders for the year ending December 31, 2001 were \$20.4 million, or \$2.00 per share, compared to \$18.0 million, or \$1.91 per share, for the prior year, an achievement we are very proud to report, especially in light of such a difficult business climate. Basic earnings per share were \$2.02 in 2001 as compared to the \$1.92 reported in 2000.

Total operating revenues for 2001 were \$197.5 million, a record high level, and 7.4% above the prior year. This was primarily the result of rate increases totaling \$12.0 million, authorized by the California Public Utilities Commission (CPUC), covering essentially all of our California customers. The effect of these rate increases was partially offset by declines of approximately 3.4% in water sales due to unfavorable weather. In addition, Chaparral City Water Company, acquired in October 2000, was fully integrated into our operations and contributed \$6.3 million in revenues during 2001.

Collection of purchased power costs, incurred to supply power to customers of the electric division of our Southern California Water Company unit (SCW), was a major focus during 2001. We found it necessary to implement a cash preservation plan designed to reduce operating and capital expenses in order to retain cash for payment of these electric power costs. Power purchased for resale during 2001 increased by

84%, or \$9 million, most of which was captured in the balancing account for future recovery. At year-end, we had a net under-collection in our electric supply cost balancing account of approximately \$22.4 million. Of this amount, the CPUC has authorized recovery through rates of \$11.1 million in the aggregate over a five-year period. However, it is most important that we recover our electric power costs on a current basis. We consider the CPUC's actions to date regarding recovery of our deferred power costs as favorable. We therefore believe the CPUC will support our settlement agreement, signed by all parties to our rate application, that would authorize SCW to collect purchased energy costs of \$0.077 per kilowatt-hour through rates, as well as scheduling coordination costs and losses. Since this amount is less than what we currently pay for purchase power, we intend to continue to pursue renegotiation of our purchased power contracts with our suppliers to reduce our costs to this level or below. During 2001, as part of our contingency planning efforts, we established approximately \$7.9 million in reserves to offset the potentially adverse effects, should we be less than successful at restructuring the pricing in the supply contracts.

Budgeted capital expenditures of \$52 million in 2001 were reduced to approximately \$32 million as part of the cash preservation plan. More importantly, capital projects necessary to meet public health, safety and service for our customers were not impacted by the cash preservation plan. The reduction in capital spending has resulted in somewhat slower growth in ratebase than was approved by the CPUC. However, we plan to be back on track once the cash preservation plan is lifted. For 2002, net capital expenditures of \$57 million are planned and will continue to be focused on delivering safe, reliable water and electric services to our customers in an efficient and cost effective manner.

Absent the effects of the cash preservation plan, we continue to exercise significant control over our operating expenses. New wells were brought on-line at SCW that increased the amount of water provided from our own wells to approximately 57% of total supply, compared to 55% last year. And we anticipate additional increases will follow.

CHAPARRAL CONTRIBUTES

Chaparral City Water Company, acquired in October 2000, was fully integrated into our operating and financial results reported for 2001. Chaparral primarily serves the town of Fountain Hills, Arizona, a suburb of Phoenix (the second fastest growing city in the U.S.). Since our acquisition, growth at Chaparral has been substantial. We currently provide service to approximately 11,400 customers, which generated \$6.3 million in revenues, and \$1 million in net income last year. Chaparral was successfully integrated into the company in an efficient manner using only internal resources. This is an excellent example of our long-term strategy of seeking selective, accretive acquisitions that strengthen operations and increase return to investors.

CONSISTENT GROWTH STRATEGY

In spite of the difficulties encountered last year, management was able to achieve outstanding financial and operating results in 2001 by continuing to focus on the fundamental growth strategies that we have communicated to investors for several years:

- *Providing safe, reliable water and electric service to customers.* For 72 years, our Southern California Water Company unit has provided water and electric services in California. Our acquisition of Chaparral City Water Company established an additional growth platform in Arizona.
- *Concentrating efforts on core water and electric regulated operations and earning authorized returns on equity.* Our growth continues to demonstrate management's dedication to doing what we do best – pursue rates based on prudently incurred expenditures and earn the authorized rate of return.
- *Acquiring assets that complement existing operations and promote geographic and regulatory diversity.* We will focus on making strategic acquisitions with good economic metrics (predominately in states west of the Mississippi) that will accelerate earnings growth and spread regulatory and geographic risks. Although no new acquisitions were finalized in 2001, negotiations continued for other small companies.

- *Engaging in select non-regulated activities that can produce additional earnings.* Our American States Utility Services, Inc. subsidiary has a growing resume of contracts with municipalities and others.

CHALLENGES AND OPPORTUNITIES

Management is dedicated to enhancing shareholder value. Earnings drive the ability to enhance share value, and our goal for 2002 is to continue to increase net income, while meeting the needs of our customers. In 2002 we will continue to focus on the key issues we identified in 2001:

- Recover increased electric energy costs for SCW's electric division
- Operate efficiently without compromising safety and security
- Implement a comprehensive capital improvement program
- Pursue opportunities for acquisitions and new business development that makes sound economic sense
- Recover prudent operating and capital improvements through rate increases

Consolidation of the water industry, high capital costs and increased water quality standards have created major barriers to entering the water business and discouraged new competitors, resulting in excellent growth opportunities for us. The water industry is the only utility business that has not undergone broad restructuring such as has occurred in the gas, electric and telecom industries. A primary challenge for the company and the water industry in general is to continue to meet new regulations issued by federal and state agencies, while keeping water rates affordable for consumers. As health-based science improves, U.S. drinking water regulations will continue to become more stringent. Often, these new rules push some water system owners to consider major overhauls of their water treatment plants. Fortunately, we have one of the industry's pre-eminent water quality teams which places us in an excellent position to stay current with the increasing requirements for safety, health and security issues in an ever changing and more complicated operating environment.

WATER QUALITY LAWSUITS ADDRESSED

For several years now, SCW has been a party to a number of lawsuits involving allegations related to water quality. SCW has vigorously defended itself against these claims. Due to our vigorous defensive actions, on September 1, 1999, the First District Court of Appeal in San Francisco, in a published opinion entitled *Hartwell Corporation v. The Superior Court of Ventura County* (Hartwell), held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of lawsuits filed against water utilities, including SCW. However, on October 11, 1999, a group of plaintiffs appealed the Hartwell decision to the California Supreme Court.

We are pleased to report to you that on February 4, 2002, the California Supreme Court rendered its long awaited opinion in the Hartwell matter. While the court did not issue a ruling that would have established that the CPUC has sole jurisdiction to determine matters of this type for utilities under its jurisdiction, the Court's decision appropriately frames the basis on which such lawsuits can be brought. The Court reaffirmed the power of the CPUC to regulate water utilities in both pricing and water quality, but concluded that a court has jurisdiction to enforce a water utility's legal obligation to comply with CPUC standards and policies and to award damages for proven violations. The Court ruled that regulated utilities, including SCW, are not held responsible for contamination if they delivered water that met applicable government standards. In essence, plaintiffs are now required to demonstrate that water delivered to and consumed by each individual plaintiff failed to meet federal or state drinking water standards.

While it is possible that SCW may be held in the lawsuits for at least some period of time, we believe this is a very positive step towards ultimate resolution of these matters.

INVESTORS LIKE AWR

Shareholders continued to benefit from our consistently executed business strategies. Using the Securities and Exchange Commission's guidelines for reporting financial performance, \$100 invested in shares of your company at December 31, 1996 would be worth \$202.34 at December 31, 2001. By contrast, \$100 invested in the Standard & Poor's 500 Index would be worth \$166.24 for the same period¹. In addition, consecutive dividends have been paid to shareholders since 1931.

¹Past performance is no guarantee of future results. Share values and returns fluctuate and gain or loss may occur when shares are sold.

We ask that you consider the following reasons to initially invest in or increase your investment in the company:

- Water is absolutely necessary for survival and has no meaningful competition
- There are no challenges to the continuation of franchised territories
- Our diverse service areas spread potential weather, regulatory and economic risks
- We offer steady growth with an optimistic outlook for earnings and potential for price appreciation
- We operate in a stable industry
- Water company stocks like ours outperformed broader market indices for the past three years

We are confident that by continuing the strategies that have worked well in the past, we will achieve our goals and meet the challenges that arise. For useful information to evaluate the company as an investment, we invite you to review the 10-K report, prepared for the Securities and Exchange Commission, included in this annual report.

TO OUR TEAM

We thank management, our employees and members of the board of directors for their many individual and collective contributions to our success and their continued dedication to our efforts. Working together as a team, we successfully addressed the challenges of 2001. Our primary goals going forward are to continue to provide safe and reliable water and electric service at the most economical rates for our customers, increase value for our shareholders, and provide a rewarding and safe working environment for our employees.


Sincerely,



Lloyd E. Ross
Chairman of the Board



Floyd E. Wicks
President and Chief Executive Officer



Through proactive planning, challenges settle into calmer waters.

Every day, our 500 men and women work diligently to minimize the impacts of unexpected situations. Although nobody

can know the future with any certainty, training, experience, planning and dedication help to ensure that challenges are over-

come and that customers receive the services they need and want. This dedication to our customers serves our shareholders best.



*Reflecting on the lessons of our past provides
invaluable insight for meeting the challenges of tomorrow.*

Communication is not just another word at our company. Rather, it is inherent in our culture. Through communication the knowledge

gained, the lessons learned and the experiences gathered from the past are shared with the future, forming a common bond of competencies.

Armed with this strength of purpose, the future is a wonderful place to be for our investors and customers.

10-YEAR STATISTICAL REVIEW

	2001	2000	1999
FINANCIAL INFORMATION <i>(in thousands, except per share and per customer amounts)</i>			
Revenues by Classification			
Residential and Commercial	\$ 164,868	\$ 154,012	\$ 144,273
Industrial	2,470	2,340	2,278
Fire Service	1,505	1,433	1,374
Other – Water	12,631	11,010	11,768
Total Water Revenue	181,474	168,795	159,693
Electric Revenue	15,291	14,366	13,338
Other Revenue	789	799	390
Total Operation Revenues	197,514	183,960	173,421
Net Income	20,447	18,086	16,101
Earnings Available for Common Shareholders	20,363	18,000	16,013
Earnings per Common Share	2.02	1.92	1.79
Earnings per Common Share – Diluted	2.00	1.91	N/A
Dividends Declared per Common Share	1.30	1.29	1.28
Book Value per Common Share	19.84	19.12	17.73
Total Assets	683,764	616,646	533,181
Net Utility Plant	539,842	509,096	449,595
Capital Additions	50,253	45,982	51,578
Long-term Debt (Net)	245,692	176,452	167,363
Preferred Shares	1,600	1,600	1,600
Preferred Shares – Mandatory Redemption	280	320	360
Investment per Customer	\$ 2,610	\$ 2,457	\$ 2,267
OPERATION INFORMATION <i>(in units as indicated)</i>			
Water Sold by Classification (mg)			
Residential and Commercial	55,012	55,501	53,742
Industrial	816	836	853
Fire Service	570	588	411
Other	5,215	5,135	4,828
Total Water	61,613	62,060	59,834
Total Electric Sales (mwh)	126,911	133,958	127,584
Water Production by Source (mg)			
Purchased	26,853	28,102	25,647
Pumped – Electric	36,894	36,419	36,969
Pumped – Gas	118	30	179
Gravity and Surface	1,219	1,282	1,035
Total Supply	65,084	65,833	63,830
Customers by Classification			
Residential and Commercial	252,002	250,132	238,511
Industrial	330	327	328
Fire Service	3,305	3,223	3,140
Other	2,515	2,555	2,107
Total Water	258,152	256,237	244,086
Electric	21,747	21,484	21,181
Total Company	279,899	277,721	265,267
Miles of Main in Service	2,899	2,884	2,742
Number of Employees	492	499	492

mg=millions of gallons mwh=megawatt hours

1998	1997	1996	1995	1994	1993	1992
\$ 123,271	\$ 131,007	\$ 126,456	\$ 106,480	\$ 100,796	\$ 86,918	\$ 82,112
1,917	1,998	1,847	1,674	1,459	1,134	1,110
1,329	1,319	1,269	1,211	1,181	1,149	1,067
8,277	6,664	10,425	9,557	8,651	8,954	6,336
134,794	140,988	139,997	118,922	112,087	98,155	90,625
13,201	12,767	11,532	10,891	10,588	10,351	10,035
65	—	—	—	—	—	—
148,060	153,755	151,529	129,813	122,675	108,506	100,660
14,623	14,059	13,460	12,165	11,338	12,026	12,142
14,533	13,967	13,366	12,069	11,240	11,926	12,040
1.62	1.56	1.69	1.54	1.43	1.66	1.82
N/A	N/A	N/A	N/A	N/A	N/A	N/A
1.26	1.25	1.23	1.21	1.20	1.19	1.15
17.23	16.86	16.52	15.50	15.16	14.92	13.28
484,671	457,074	430,922	406,255	383,627	358,533	312,491
414,753	383,623	357,776	334,968	317,879	294,990	277,525
45,269	39,226	34,374	28,761	30,307	28,626	26,975
120,809	115,286	107,190	107,455	92,891	84,621	84,195
1,600	1,600	1,600	1,600	1,600	1,600	1,600
400	440	480	520	560	600	640
\$ 2,099	\$ 1,900	\$ 1,808	\$ 1,688	\$ 1,578	\$ 1,480	\$ 1,388
49,302	54,623	52,843	49,641	51,084	48,033	47,541
832	899	828	802	818	679	699
649	417	831	130	308	33	23
4,124	5,070	4,932	4,706	4,537	4,019	3,890
54,907	61,009	59,434	55,279	56,747	52,764	52,153
123,791	121,315	117,139	111,519	110,234	106,234	105,346
22,885	28,894	27,147	24,356	25,940	25,156	24,377
35,596	34,531	35,216	34,105	33,337	32,056	30,406
75	316	40	218	198	195	177
74	1,147	932	979	967	658	1,249
58,630	64,888	63,335	59,658	60,442	58,065	56,209
237,157	236,270	235,244	233,920	232,879	231,966	230,956
332	331	333	326	323	322	330
3,112	2,964	2,925	2,909	2,896	2,877	2,846
2,033	2,016	2,046	1,807	1,807	1,820	1,795
242,634	241,581	240,548	238,962	237,905	236,985	235,927
20,865	20,698	20,437	20,475	20,331	20,131	20,039
263,499	262,279	260,985	259,437	258,236	257,116	255,966
2,654	2,638	2,603	2,587	2,567	2,560	2,549
470	467	463	448	467	486	445

CUSTOMER LOCATION AND SERVICE AREA MAP

REGION I – SCW ●	Number of Customers
<i>Northern District</i>	
Arden-Cordova (a)	14,106
Bay Point (b)	4,900
Clearlake (c)	2,087
<i>Coastal District</i>	
Los Osos (d)	3,204
Ojai (e)	2,789
Santa Maria (f)	12,776
Simi Valley (g)	13,063
REGION II – SCW ●	
<i>Central District</i>	
Central Basin East (h)	19,746
Central Basin West (i)	19,570
Culver City (j)	9,404
<i>Southwest District</i>	
Southwest (k)	50,096
REGION III – SCW ●	
<i>Foothill District</i>	
Claremont (l)	10,663
San Dimas (m)	15,809
San Gabriel Valley (n)	11,813
<i>Mountain/Desert District</i>	
Apple Valley (o)	2,415
Barstow (p)	8,449
Calipatria (q)	1,164
Morongo Valley (r)	863
Wrightwood (s)	2,574
<i>Orange County District</i>	
Los Alamitos (t)	26,590
Placentia (u)	14,718
Total Water	246,799
BEAR VALLEY ELECTRIC COMPANY (v) ●	21,747
Total SCW Customers	268,546
Total CCWC Customers (w) ■	11,353
Total ASUS Customers	90,000



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CORPORATE INFORMATION

BOARD OF DIRECTORS OF AMERICAN STATES WATER COMPANY AND SUBSIDIARIES

Lloyd E. Ross ^(60,6)
(Chairman of the Board of Directors)
Managing Partner, Invermex LP
Irvine, California

Floyd E. Wicks ^(58,12)
President and Chief Executive Officer

James L. Anderson ^(58,5) (a,c)
(Chairman of the Compensation Committee)
President
Americo Financial Services
Austin, Texas

Jean E. Auer ^(65,6) (a,c)
(Chairperson of the Nominating
and Governance Committee)
Consultant to the San Francisco Estuary
Project and member of the Board of Directors
of the Water Education Foundation
Hillsborough, California

N. P. Dodge, Jr. ^(64,11) (a,b)
President, N.P. Dodge Company
Omaha, Nebraska

Anne M. Holloway ^(49,4) (a,b,c)
Atherton, California

Robert F. Kathol ^(60,6) (a,b)
(Chairman of the Audit and
Finance Committee)
Executive Vice President
Kirkpatrick, Pettis, Smith, Polian Inc.
Omaha, Nebraska

(age, years of service)

(a) Member – Compensation Committee, (b) Member – Audit and Finance
Committee, (c) Member – Nominating and Governance Committee

ELECTED OFFICERS OF AMERICAN STATES WATER COMPANY AND SUBSIDIARIES

Lloyd E. Ross ^(60,3)
Chairman of the Board

Floyd E. Wicks ^(58,14)
President and Chief Executive Officer

McClellan Harris III ^(50,11)
Chief Financial Officer, Vice President-Finance,
Treasurer and Corporate Secretary

Joel A. Dickson ^(49,11)
Vice President-Administration

Donald K. Sadoris ^(58,34)
Vice President-Chief of Operations
Vice President-Customer Service, Region I

ELECTED OFFICERS OF SOUTHERN CALIFORNIA WATER COMPANY ONLY

Denise L. Kruger ^(37,9)
Vice President-Customer Service, Region II

James B. Gallagher ^(47,14)
Vice President-Customer Service, Region III

Susan L. Conway ^(40,13)
Vice President-Regulatory Affairs

Joseph F. Young ^(56,24)
Vice President-Governmental Relations
and Public Information

(age, years of service)

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

All shareholders are invited to attend the Annual Meeting of Shareholders, which will be held on April 30, 2002, beginning at 10:00 am, at the Pasadena Hilton, 168 South Los Robles Avenue, Pasadena, California 91101. Notice of meeting and proxy materials will be mailed.

STOCK LISTING

Common Shares of American States Water Company are traded on the New York Stock Exchange under the symbol AWR. The high and low NYSE prices and the dividends paid on the Common Shares for the past two years were:

2001	High	Low	Dividends Paid
First Quarter	\$ 37.38	\$ 28.75	\$ 0.325
Second Quarter	34.00	28.50	0.325
Third Quarter	39.60	32.40	0.325
Forth Quarter	38.00	32.20	0.325
			\$ 1.30

2000	High	Low	Dividends Paid
First Quarter	\$ 36.25	\$ 26.00	\$ 0.320
Second Quarter	32.25	27.81	0.320
Third Quarter	31.75	25.00	0.320
Forth Quarter	37.94	29.19	0.325
			\$ 1.285

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Arthur Andersen LLP
633 West Fifth Street
Los Angeles, CA 90071

CORPORATE REPORTS

Shareholders with questions, or who wish to obtain a copy of the company's reports to the Securities and Exchange Commission without charge, should contact:

American States Water Company
Attn: Corporate Secretary
630 East Foothill Boulevard
San Dimas, CA 91773
Phone: (909) 394-3600
Fax: (909) 394-1382

SHAREHOLDER ASSISTANCE

Shareholders with questions about replacement of dividend checks, transferring stock, replacing lost or stolen certificates or other matters related to their ownership of stock, should contact:

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
(888) 816-6998
<http://www.mellon-investor.com>

COMMON SHARE PURCHASE AND DIVIDEND REINVESTMENT PLAN

The company has a Common Share Purchase and Dividend Reinvestment Plan ("Plan") that is sponsored and administered by The Chase Manhattan Bank. The Plan provides a simple and cost-effective method for current and potential shareholders to build ownership in the company through the direct purchase of common shares from the company and the reinvestment of their cash dividends. A Prospectus and enrollment form may be obtained from Mellon Investor Services LLC at (800) 842-7629 or from the company at (877) 463-6297 (INFOAWR).

2002 DIVIDEND SCHEDULE

The following schedule shows the anticipated Common and Preferred Share record and payment dates for 2002:

Record Dates	Payment Dates
February 8	March 1
May 8	June 1
August 8	September 1
November 8	December 1

INTERNET ADDRESS

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2001

<u>Commission File No.</u>	<u>Registrant and State of Incorporation Address and Telephone Number</u>	<u>IRS Employer Identification No.</u>
333-47647	American States Water Company (A California corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-4676679
000-01121	Southern California Water Company (A California corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-1243678

Securities registered pursuant to Section 12(b) of the Act:

American States Water Company

Common Shares, \$2.50 Stated Value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

American States Water Company Yes No
Southern California Water Company Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the total voting stock held by non-affiliates of American States Water Company was approximately \$345,539,000 on March 1, 2002. The closing price per Common Share on that date, as quoted in the Western Edition of *The Wall Street Journal*, was \$34.35. Voting Preferred Shares of American States Water Company, for which there is no established market, were valued on March 1, 2002 at \$1,972,000 based on a yield of 4.16%. As of March 1, 2002, the number of Common Shares of American States Water Company, \$2.50 Stated Value, outstanding was 10,079,629. As of that same date, American States Water Company owned all 100 outstanding Common Shares of Southern California Water Company.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 12 and 13, in each case as specifically referenced herein.

AMERICAN STATES WATER COMPANY
and
SOUTHERN CALIFORNIA WATER COMPANY

FORM 10-K

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Item 1. Business

This annual report on Form 10-K is a combined report being filed by two separate Registrants: American States Water Company (hereinafter "AWR") and Southern California Water Company (hereinafter "SCW"). References in this report to "Registrant" are to AWR and SCW, collectively, unless otherwise specified. SCW makes no representations as to the information contained in this report relating to AWR and its subsidiaries, other than SCW.

General

AWR, incorporated in 1998, is engaged in the business of holding, for investment, the stock primarily of utility companies. AWR's principal investment is the stock of SCW. SCW is a California public utility company engaged principally in the purchase, production, distribution and sale of water (SIC No. 4941). SCW also distributes electricity in one customer service area (SIC No. 4911). SCW is regulated by the Public Utilities Commission of the State of California (CPUC) and was incorporated on December 31, 1929. SCW is organized into three water service regions and one electric customer service area operating within 75 communities in 10 counties in the State of California and provides water service in 21 customer service areas. Region I incorporates 7 customer service areas in northern and central California; Region II has 4 customer service areas located in Los Angeles County; Region III incorporates 10 water customer service areas in eastern Los Angeles County, and in Orange, San Bernardino and Imperial counties. SCW also provides electric service to the City of Big Bear Lake and surrounding areas in San Bernardino County through its Bear Valley electric service division.

AWR also owns two other subsidiaries. American States Utility Services, Inc. (ASUS) contracts to lease, operate and maintain water and wastewater systems owned by others and to provide related services, such as billing and meter reading. Chaparral City Water Company (CCWC) is an Arizona public utility company serving approximately 11,400 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona (SIC No. 4941). The Arizona Corporation Commission (ACC) regulates CCWC. Neither AWR nor ASUS is regulated by either the CPUC or the ACC.

SCW served 246,799 water customers and 21,747 electric customers at December 31, 2001, or a total of 268,546 customers, compared with 266,658 total customers at December 31, 2000. CCWC served 11,353 water customers as of December 31, 2001, compared with 11,063 customers at December 31, 2000. ASUS has approximately 90,000 accounts under contract.

Competition

The businesses of SCW and CCWC are substantially free from direct and indirect competition with other public utilities, municipalities and other public agencies. AWR's other subsidiary, ASUS, actively competes with other investor-owned utilities, other third party providers of water and wastewater services, and governmental entities on the basis of price and quality of service.

Employee Relations

SCW had 481 employees as of December 31, 2001 as compared to 489 at December 31, 2000. Seventeen positions in SCW's Bear Valley Electric customer service area are covered by a collective bargaining agreement, which expires in 2002, with the International Brotherhood of Electrical Workers. Fifty-six positions in SCW's Region II ratemaking district are covered by a collective bargaining agreement, which expires in 2004, with the Utility Workers of America. SCW has no other unionized employees.

CCWC had 11 employees as of December 31, 2001, all of whom are non-unionized.

Item 2 - Properties

Franchises and Condemnation of Properties

SCW holds certificates of public convenience and necessity granted by the CPUC in each of the ratemaking districts it serves. CCWC holds certificates of public convenience and necessity granted by the ACC for the areas in which it serves. CCWC's certificates and similar rights are subject to alteration, suspension or repeal by the respective governmental authorities having jurisdiction. Both SCW and CCWC hold franchises, easements and rights of way pursuant to the terms of

agreements that must periodically be renewed. These agreements are also subject to suspension or termination in certain circumstances if SCW or CCWC, as applicable, violate the terms of these agreements.

The laws of the State of California and the State of Arizona provide for the acquisition of public utility property by governmental agencies through the power of eminent domain, also known as condemnation. Registrant has not been, within the last three years, involved in activities related to the condemnation of any of its water customer service areas or in its Bear Valley Electric customer service area.

Electric Properties

SCW's electric properties are all located in the Big Bear area of San Bernardino County in California. As of December 31, 2001, SCW operated 28.7 miles of overhead 34.5 kv transmission lines, 0.6 miles of underground 34.5 kv transmission lines, 173.6 miles of 4.16 kv or 2.4 kv distribution lines, 42.3 miles of underground cable and 14 sub-stations. Neither AWR nor any of its subsidiaries own electric generating plants.

Office Buildings

Registrant's general offices are housed in a single-story office building located in San Dimas, California. The land and the building are owned by SCW. SCW also owns and occupies certain facilities housing regional, district and customer service offices while other such facilities are housed in leased premises. CCWC owns its primary office space.

Water Properties

As of December 31, 2001, SCW's physical properties consisted of water transmission and distribution systems which included 2,719 miles of pipeline together with services, meters and fire hydrants and approximately 430 parcels of land, generally less than 1 acre each, on which are located wells, pumping plants, reservoirs and other water utility facilities, including five surface water treatment plants.

As of December 31, 2001, SCW owned 280 wells. Certain wells have been removed from service due to water quality problems. For further information, see the section entitled "*Environmental Matters*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation. All wells are equipped with pumps with an aggregate capacity of approximately 203 million gallons per day. SCW has 57 connections to the water distribution facilities of the Metropolitan Water District of Southern California (MWD) and other municipal water agencies. SCW's storage reservoirs and tanks have an aggregate capacity of approximately 103 million gallons. SCW owns no dams in its customer service areas. The following table provides, in greater detail, selected water utility plant of SCW for each of its water ratemaking districts:

District	Pumps		Distribution Facilities			Reservoirs	
	Well	Booster	Mains	Services	Hydrants	Tanks	Capacity
Arden Cordova	27	15	485,152	14,106	1,196	3	4,000
Barstow	23	36	873,311	8,449	1,013	14	8,025
Bay Point	3	12	161,504	4,900	343	7	4,046
Calipatria	0	8	139,180	1,164	84	8	13,241
Claremont	24	32	714,370	10,663	1,185	15	8,082
Clearlake	0	13	194,298	2,087	75	4	883
Desert	17	20	760,707	3,278	590	11	1,475
Los Osos	11	9	201,528	3,204	169	8	1,422
Metro	71	75	4,926,733	98,816	8,005	32	23,940
Ojai	5	12	235,073	2,789	350	5	1,494
Orange	30	36	2,226,961	41,308	4,606	15	11,900
San Dimas	11	38	1,197,744	15,809	870	15	10,149
San Gabriel	18	8	549,437	11,813	791	3	1,520
Santa Maria	31	24	961,368	12,776	778	8	3,076
Simi	2	23	512,167	13,063	890	8	8,250
Wrightwood	7	5	217,263	2,574	81	7	1,546
Total	280	366	14,356,796	246,799	21,026	163	103,049

Capacity is measured in thousands of gallons. Mains are in feet.

As of December 31, 2001, CCWC's physical properties consisted of water transmission and distribution systems, which included 180 miles of pipeline, together with services, meters, fire hydrants, wells, reservoirs with a combined storage capacity of 7.05 million gallons and other water utility facilities including a surface water treatment plant, which treats water from the Central Arizona Project (CAP).

Mortgage and Other Liens

As of December 31, 2001, SCW had no mortgage debt outstanding, and its properties were free of any encumbrances or liens securing indebtedness.

As of December 31, 2001, substantially all of the utility plant of CCWC was pledged to secure its Industrial Development Authority Bonds. The Bond Agreement, among other things, restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, or merge with another corporation, and pay dividends.

As of December 31, 2001, neither AWR nor ASUS had any mortgage debt or liens securing indebtedness outstanding.

Item 3 - Legal Proceedings

Water Quality-Related Litigation

SCW is a defendant in twenty lawsuits involving claims pertaining to water quality. Seventeen of the lawsuits involve customer service areas located in Los Angeles County in the southern portion of the State of California that have been filed in Los Angeles Superior Court: Adler v. Southern California Water Company, et al., Case No. BC169892, Santamaria v. Suburban Water Systems, et al., Case No. CIV180894, Georgianna v. Dominguez et al. v. Southern California Water Company, et al., Case No. G021657, Anderson, et al. v. Suburban Water Company, et al., Case No. KC028524, Abarca, et al. v. City of Pomona, et al., Case No. K027795, Celi, et al. v. San Gabriel Valley Water Company, Case No. GC020622, Boswell et al. v. Suburban Water Systems, et al., Case No. KC027318, Demciuc et al. v. Suburban Water Systems, et al., Case No. C028732, Adejare, et al. v. Southern California Water Company, Case No. KC031096, Almelia Brooks, et al. v. Suburban Water System, et al., Case No. KC032915, Lori Alexander, et al. v. Suburban Water Systems, et al., Case No. KC031130, David Arnold, et al. v. City of Pomona, et al., Case No. KC034636, Gilda Ambrose-Dubre, et al. v. City of Pomona, et al., Case No. KC032906, Melissa Garrity Alvarado, et al. v. Suburban Water Systems et al., Case No. KC034953, Charles Alexander, et al. v. City of Pomona, et al., Case No. KC035526, Criner, et al. v. San Gabriel Valley Water Company, et al., Case No. GC021658, and Donerson, et al. v. City of Pomona, et al., Case No. KC035987. The lawsuits filed in Los Angeles County Superior Court are based on the allegations that SCW and the other defendants have provided and continue to provide plaintiffs with contaminated water from wells located in an area of the San Gabriel Valley that has been designated a federal superfund site, that the maintenance of this contaminated well water has resulted in contamination of the soil, subsurface soil and surrounding air with trichloroethylene (“TCE”), perchloroethene (“PCE”), carbon tetrachloride and other solvents and that plaintiffs have been injured and their property damaged as a result. Three of the lawsuits involve a customer service area located in Sacramento County in northern California that have been filed in Sacramento County Superior Court: Nathaniel Allen, Jr. v. Aerojet-General Corporation, et al., Case No. 97AS06295, Daphne Adams, et al. v. Aerojet-General Corporation, et al., Case No. 98AS01025, and Wallace Andrew Pennington et al. v. Aerojet-General Corporation, et al., Case No. 00AS02622. The lawsuits filed in Sacramento County Superior Court are based on the allegations that SCW and other defendants have delivered water to plaintiffs that is contaminated with a number of chemicals, including, TCE, PCE, carbon tetrachloride, perchlorate, Freon-113, hexavalent chromium and other unnamed chemicals and that plaintiffs have been injured and their property damaged as a result.

On September 1, 1999, the Court of Appeals in San Francisco held that the CPUC had preemptive jurisdiction over regulated public utilities with respect to water quality matters and ordered dismissal of a series of these lawsuits. On October 11, 1999, one group of plaintiffs appealed this decision to the California Supreme Court. On February 4, 2002, the California Supreme Court concluded that (i) the CPUC had preemptive jurisdiction over claims seeking injunctive relief and claims based on the theory that a public utility regulated by the CPUC provided unsafe drinking water even though it had complied with federal and state drinking water standards, but (ii) the CPUC did not have preemptive jurisdiction over damage claims based on allegations of violations of federal and state drinking water standards by public utilities regulated by the CPUC. As a result, damage claims based on allegations of violations of federal and state drinking water standards may proceed while the other claims must be dismissed.

In light of the breadth of plaintiffs’ claims, the lack of factual information regarding plaintiff’s claims and injuries, if any, the impact of the California Supreme Court decision on plaintiffs’ claims and the fact that no discovery has yet been completed, SCW is unable at this time to determine what, if any, potential liability it may have with respect to these claims. Based upon the information currently available to it, Registrant believes that these claims are without merit and intends to vigorously defend these claims.

SCW is subject to self-insured retention provisions in its applicable insurance policies and has either expensed the self-insured amounts or has reserved against payment of these amounts as appropriate. SCW’s various insurance carriers have, to date, provided reimbursement for costs incurred above the self-insured amounts for defense against these lawsuits, subject to a reservation of rights.

Order Instituting Investigation (OII)

In March 1998, the CPUC issued an OII to regulated water utilities in the state of California, including SCW. The purpose of the OII was to determine whether existing standards and policies regarding drinking water quality adequately protect the public health and whether those standards and policies were being uniformly complied with by those water utilities. On November 2, 2000, a final decision from the CPUC concluded that the Commission has the jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that the California

Department of Health Services' requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

The CPUC had previously authorized establishment of memorandum accounts to capture expenses related to the OII. Under the memorandum account procedure, SCW may recover litigation costs from ratepayers to the extent authorized by the CPUC. The CPUC has not yet authorized SCW to recover any of its litigation costs. As of December 31, 2001, SCW had recorded a net of \$888,700 in this memorandum account. Management believes that these expenses will be fully recovered but is unable to predict when, or if, the CPUC will authorize recovery of all or any of the costs.

Other Water Quality Litigation

On October 25, 1999, SCW filed a lawsuit against the California Central Valley Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is destroying the underground water supply in SCW's Rancho Cordova customer service area. Management cannot predict the likely outcome of this proceeding.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet-General Corporation (Aerojet) for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000, Aerojet filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of these proceedings.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting the suits filed against CRWQCB and Aerojet from customers, less any recovery from the defendants or others. As of December 31, 2001, approximately \$6,640,000 has been recorded in the memorandum accounts. The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1,800,000, in expenses that were incurred on or before August 31, 2000. SCW will continue to file additional Advice Letters to recover the remaining costs. Management believes these costs are recoverable but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

On April 25, 2001, Registrant filed a lawsuit against all the potentially responsible parties, who stored, transported and dispensed gasoline containing methyl tertiary butyl ether (MTBE) in underground storage tanks, pipelines or other related infrastructure. MTBE contaminated water existing in areas of the basin from which SCW has pumped water through its Charnock Well Field. As a result, SCW ceased operation of its Charnock Well Field in October 1996. Registrant has reached an agreement in this matter that assigns the prosecution of litigation against the potentially responsible parties to the City of Santa Monica, California (Santa Monica). As part of the agreement and in exchange for an assignment payment, Santa Monica will prosecute the case against the potentially responsible parties. Registrant expects that Santa Monica will sign the agreement by the end of the first quarter of 2002.

Electric Service Litigation

SCW has been, in conjunction with the Southern California Edison (Edison) unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements for SCW's Bear Valley Electric Service area. On December 27, 2000, SCW filed a lawsuit against Edison for declaratory relief and seeking damages for breach of contract as a result of delays in the 115kv Project. Subsequently Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach, and quantum meruit. Registrant has discussed various settlement options with Edison regarding this matter. However, management cannot predict the likely outcome of this matter.

Other Litigation

Registrant is also subject to ordinary routine litigation incidental to its business. Other than as disclosed above, no legal proceedings are pending, except such incidental litigation, to which Registrant is a party or of which any of its properties is the subject, which are believed to be material. For further information, see Note 8 to the "Notes to Financial Statements in Part II, Item 8 in Financial Statements and Supplementary Data.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders through the solicitation of proxies or otherwise.

PART II

Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

Market Information Relating to Common Shares -

Common Shares of American States Water Company are traded on the New York Stock Exchange (NYSE) under the symbol AWR. The intra-day high and low NYSE prices on the Common Shares for each quarter during the past two years were:

	Stock Prices	
	High	Low
2001		
First Quarter	\$ 37.38	\$ 28.75
Second Quarter	34.00	28.50
Third Quarter	39.60	32.40
Fourth Quarter	38.00	32.20
2000		
First Quarter	\$ 36.25	\$ 26.00
Second Quarter	32.25	27.81
Third Quarter	31.75	25.00
Fourth Quarter	37.94	29.19

Approximate Number of Holders of Common Shares -

As of February 22, 2002, there were 3,404 holders of record of Common Shares of American States Water Company. AWR owns all of the authorized and outstanding Common Shares of SCW, CCWC and ASUS.

Frequency and Amount of Any Dividends Declared and Dividend Restrictions

For the last three years, Registrant has paid dividends on its Common Shares on March 1, June 1, September 1 and December 1. The following table lists the amount of dividends paid on Common Shares of American States Water Company for the last two years:

	2001	2000
First Quarter	\$ 0.325	\$ 0.320
Second Quarter	0.325	0.320
Third Quarter	0.325	0.320
Fourth Quarter	0.325	0.325
Total	\$ 1.300	\$ 1.285

Neither AWR nor ASUS is subject to any contractual restriction on its ability to pay dividends. SCW's maximum ability to pay dividends is restricted by certain Note Agreements to the sum of \$21 million plus 100% of consolidated net income plus the aggregate net cash proceeds received from capital stock offerings or other instruments convertible into capital stock.

The ability of AWR, ASUS and SCW to pay dividends is also restricted by California law. Under restrictions of the California tests, approximately \$74.5 million, \$0 and \$72.7 million of retained earnings, respectively, for AWR, ASUS and SCW was available to pay dividends to Common Shareholders at December 31, 2001.

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted by Arizona law. Under restrictions of the Arizona tests, approximately \$3.2 million was available to pay dividends to Common Shareholders at December 31, 2001.

For the year ended December 31, 2001, AWR paid \$13.2 million in common and preferred dividends to shareholders. For the year ended December 30, 2000, AWR paid \$12.3 million in common and preferred dividends to shareholders.

Item 6. Selected Financial Data

<i>(in thousands, except per share amounts and ratios)</i>	2001	2000	1999	1998	1997
Income Statement Information					
Total Operating Revenues	\$197,514	\$183,960	\$173,421	\$148,060	\$153,755
Total Operating Expenses	160,822	151,653	144,907	122,999	130,297
Operating Income	36,692	32,307	28,514	25,061	23,458
Other Income (Loss)	(510)	(99)	532	769	758
Interest Charges	15,735	14,122	12,945	11,207	10,157
Net Income	20,447	18,086	16,101	14,623	14,059
Preferred Dividends	84	86	88	90	92
Earnings Available for Common Shareholders	\$20,363	\$18,000	\$16,013	\$14,533	\$13,967
Basic Earnings per Common Share	\$2.02	\$1.92	\$1.79	\$1.62	\$1.56
Dividends Declared per Common Share	\$1.30	\$1.29	\$1.28	\$1.26	\$1.25
Average Shares Outstanding	10,080	9,380	8,958	8,858	8,957
Average Number of Diluted Shares Outstanding	10,171	9,411	N/A	N/A	N/A
Fully Diluted Earnings per Common Share	\$2.00	\$1.91	N/A	N/A	N/A
Balance Sheet Information					
Total Assets	\$683,764	\$616,646	\$533,181	\$484,671	\$457,074
Common Shareholders' Equity	199,982	192,723	158,846	154,299	151,053
Long-Term Debt	245,692	176,452	167,363	120,809	115,286
Preferred Shares-Not Subject to Mandatory	1,600	1,600	1,600	1,600	1,600
Preferred Shares-Mandatory Redemption	280	320	360	400	440
Total Capitalization	\$447,554	\$371,095	\$328,169	\$277,108	\$268,379
Book Value per Common Share	\$19.84	\$19.12	\$17.73	\$17.23	\$16.86
Other Information					
Ratio of Earnings to Fixed Charges	3.26x	3.35x	3.27x	3.21x	3.35x
Ratio of Earnings to Total Fixed Charges	3.23x	3.31x	3.23x	3.17x	3.30x
Return on Average Common Equity	10.4%	10.5%	10.2%	9.6%	9.5%
Earnings Before Interest and Taxes	\$51,561	\$47,335	\$42,391	\$35,960	\$34,046
Earnings Before Interest, Taxes, Depreciation and Amortization	\$69,512	\$62,674	\$56,041	\$48,498	\$44,998

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Unless specifically noted, the following discussion and analysis provides information on AWR's consolidated operations and assets. For the twelve months ended December 31, 2001, there is generally no material difference between the consolidated operations and assets of AWR and the operations and assets of SCW. However, where necessary, the following discussion and analysis includes references specific to AWR's other subsidiaries – CCWC and ASUS.

Forward-Looking Information

Certain matters discussed in this report (including the documents incorporated herein by reference) are forward-looking statements intended to qualify for the "safe harbor" from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the

statement will include words such as Registrant “believes,” “anticipates,” “expects” or words of similar import. Similarly, statements that describe Registrant’s future plans, objectives, estimates or goals are also forward-looking statements. Such statements address future events and conditions concerning capital expenditures, earnings, litigation, rates, water quality and other regulatory matters, adequacy of water supplies, the California energy crisis, liquidity and capital resources, opportunities related to operations and maintenance of water systems owned by governmental entities and other utilities and providing related services, and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements, by reason of factors such as utility restructuring, including ongoing local, state and federal activities; future economic conditions, including changes in customer demand and changes in water and energy supply cost; future climatic conditions; and legislative, regulatory and other circumstances affecting anticipated revenues and costs.

Results of Operations

Years Ended December 31, 2001 and 2000

Basic earnings per common share in 2001 increased by 5.2% to \$2.02 per share as compared to \$1.92 per share for the comparable period of 2000. The increases in the recorded results primarily reflect the impact of various rate increases authorized by the Public Utilities Commission of the State of California (CPUC) for SCW, additional revenues generated by CCWC since the acquisition in October 2000, improvement in operating margins and, to some extent Registrant’s Cash Preservation Plan (CPP) discussed below. For the year ended December 31, 2001, fully diluted earnings were \$2.00 per share as compared to \$1.91 per share for the comparable period of 2000. For further information, see the section entitled “*Liquidity and Capital Resources*” included in Part II, Item 7 in Management’s Discussion and Analysis of Financial Condition and Results of Operation.

Water operating revenues increased by 7.5% in 2001 to \$181.5 million from the \$168.8 million reported in 2000 due to increases in water rates authorized by the CPUC, and an additional \$6.3 million in revenues generated by CCWC. New rates, representing an annualized increase of \$3.1 million, in the customer service areas that comprise SCW’s Region I were implemented during 2001. Rate increases, representing an annualized increase of \$2.9 million, for SCW’s Region II and rate increases for SCW’s Region III, representing an annualized increase of \$3.9 million, were also implemented at various times during 2001. The additional revenues generated by rate increases were partially offset by a 3.4% reduction in water sales throughout most of SCW’s customer service areas in 2001 due to relatively mild weather. For further information, see the section entitled “*Regulatory Matters*” included in Part II, Item 7 in Management’s Discussion and Analysis of Financial Condition and Results of Operation.

Electric revenues increased by 6.3% to \$15.3 million in 2001 as compared to \$14.4 million in 2000. The increases reflected a rate increase of 12.5% effective May 24, 2001 and an additional 14.8% increase effective August 23, 2001 authorized by the CPUC to recover previously under-collected energy costs. The increases were partially offset by a decrease of 5.3% in kilowatt-hour consumption, primarily due to heavier winter snows experienced in SCW’s service area in 2001, which decreased the use of snow making machines at ski resorts in the area. For further information, see the sections entitled “*Regulatory Matters*” and “*Electric Energy Situation in California*” in Part II, Item 7 in Management’s Discussion and Analysis of Financial Condition and Results of Operation.

Purchased water costs in 2001 decreased by 9.6% to \$37.6 million as compared to \$41.6 million in 2000 reflecting a decrease in purchased water volume resulting from both lower sales and less purchased water in Registrant’s supply mix, as well as refunds received from Registrant’s wholesale water suppliers during 2001 of approximately \$770,000. There was no similar refund in 2000. Purchased water expense at CCWC was approximately \$497,000.

Costs of power purchased for pumping increased by 27.7% to \$9.6 million in 2001 as compared to \$7.5 million recorded in 2000, due to the rate increases implemented by SCW’s energy suppliers pursuant to CPUC decisions, and increased pumped water in SCW’s supply mix. In 2001, the CPUC approved SCW’s Advice Letters to increase revenues by approximately \$1.4 million annually to recover the costs of purchased power for its water ratemaking districts. For further information, see the sections entitled “*Regulatory Matters*” and “*Electric Energy Situation in California*” included in Part II, Item 7 in Management’s Discussion and Analysis of Financial Condition and Results of Operation. During 2001, CCWC incurred approximately \$423,000 in power costs used for pumping.

In 2001, SCW’s overall water supply mix improved over the mix authorized in rates due to additional well production capability coming on-line during the year. Changes in actual supply mix as compared to that authorized in rates can favorably or unfavorably impact earnings. There is no assurance that the favorable mix can be sustained in future periods since actual results are affected by availability and quality of water, both purchased and produced from

SCW's wells. For further information, see the section entitled "*Water Supply*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Costs of power purchased for resale to customers in SCW's Bear Valley Electric division in 2001 increased by 84.1% to \$19.7 million from the \$10.7 million recorded in 2000 due primarily to significant increases in wholesale market prices for energy in the State of California. The increase was partially offset by a one-time sale of energy on the spot market that resulted in a \$644,000 gain in April 2001. The sale of excess energy on the spot market resulted from a one-month overlap of energy purchase agreements. For further information, see the sections entitled "*Liquidity and Capital Resources*", "*Regulatory Matters*" and "*Electric Energy Situation in California*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Groundwater production assessments decreased by 9.3% to \$6.8 million in 2001 from \$7.5 million in 2000. The decrease occurred principally in SCW's San Gabriel and San Dimas customer service areas due to lower administrative assessments levied against production for the water year 2001 as compared with the previous year, and a credit of \$440,000 recorded in the fourth quarter of 2001 for the sale of groundwater in the Chino Basin. There was no such sale in 2000.

A positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. Conversely, a negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. The negative entries for 2001 primarily reflect untimely-recovery of electric power costs discussed previously. At December 31, 2001, Registrant had a net under-collected position of \$25.8 million in both its water and electric balancing accounts primarily due to the increases in energy costs. For further information, see the sections entitled "*Accounting for Supply Costs*", "*Liquidity and Capital Resources*", "*Regulatory Matters*" and "*Electric Energy Situation in California*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Other operating expenses increased by 3.0% in 2001 to \$17.2 million as compared with \$16.7 million in 2000 due primarily to operating expenses at CCWC, offset by the effects of the CPP at SCW that reduced or deferred a number of expense items.

Administrative and general expenses increased by 34.5% to \$35.1 million in 2001 from \$26.1 million recorded in 2000 reflecting (i) reserves of \$7.9 million established for potential non-recovery of electric power costs incurred to serve customers at SCW's Bear Valley Electric customer service area, (ii) increased reserves for self-insured worker's compensation liabilities, and (iii) additional costs from CCWC. The reserves were established to offset future impacts to earnings in the event that SCW was unable to fully recover all of its purchased power costs through rates. For further information, see the sections entitled "*Regulatory Matters*" and "*Electric Energy Situation in California*" in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation and Note 7 of "*Notes to Financial Statements*" included in Part II, Item 8 in Financial Statements and Supplementary Data.

Depreciation expense in 2001 increased by 17.6% to \$18.0 million reflecting, among other things, the effects of recording approximately \$40.1 million in net plant additions at SCW during 2000, depreciation on which began in January 2001, and additional depreciation associated with CCWC's plant. In addition, amortization of goodwill, which represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing, began October 2000. Pursuant to FASB No. 142, Goodwill and Other Intangible Assets, amortization of this goodwill, which was \$331,073 in 2001, will cease on January 1, 2002. AWR has concluded that this goodwill is not impaired.

As compared to 2000, maintenance expense decreased by 16.5% to \$8.6 million due primarily to the implementation of Registrant's CPP in April 2001 to control costs and temporarily to limit capital and maintenance expenditures principally to those projects that were believed necessary to meet public safety and health requirements or otherwise provide for continued service pending CPUC approval of rate increases that would permit SCW to begin recovery of power costs incurred during California's energy crisis. The CPP impacted both the electric and water businesses of SCW. Management estimates that the CPP, through deferral of capital expenditures alone, reduced cash expenditures in 2001 by approximately \$20 million. The CPP will remain in effect until SCW receives approval to increase electric rates pursuant to the terms of a settlement agreement. For further information, see the sections entitled "*Electric Energy Situation in California*" and "*Regulatory Matters*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Taxes on income increased slightly by 2.0% to \$15.4 million in 2001 as compared to \$15.1 million in 2000 due primarily to an approximately 9.1% increase in pre-tax operating income, the effect of which was partially offset by a lower effective tax rate.

Property and other tax expense increased by 7.0% in 2001 to \$7.6 million reflecting principally increased property taxes due to higher property valuation assessments, and additional property and payroll taxes at CCWC.

The loss recorded in other income for 2001 was due principally to the write-off of expenses associated with the termination of the acquisition of Peerless Water Co. The loss also reflects the effects of recording amortization and interest expenses, starting January 2000, on SCW's 500 acre-foot entitlement in the State Water Project (SWP). During the fourth quarter of 2001, SCW signed an agreement with a property developer requiring an assured water supply to complete construction of a development. Under the terms of this Agreement, the developer will reimburse SCW for the costs related to 350 acre-feet of SCW's SWP entitlement.

Interest expense increased by 11.3% in 2001 to \$15.7 million as compared to \$14.1 million recorded in 2000 due to (i) short-term borrowing to fund capital expenditures, (ii) the issuance of \$20 million in long-term debt by SCW in January 2001, (iii) the issuance of \$50 million in long-term debt by SCW in December 2001, and (iv) the inclusion of long-term debt at Registrant's CCWC unit.

Years Ended December 31, 2000 and 1999

Basic earnings per common share in 2000 increased by 7.3% to \$1.92 per share as compared to \$1.79 per share for the comparable period of 1999. The increase in the recorded results primarily reflects higher revenues at SCW during 2000, as is more fully discussed below. For the year ended December 31, 2000, fully diluted earnings were \$1.91 per share. Registrant had no dilutive securities outstanding in 1999.

Water operating revenues increased by 5.7% in 2000 to \$168.8 million from the \$159.7 million reported in 1999. The increase was due to three factors (i) a 3.0% increase in water sales to customers of SCW, (ii) increased water rates authorized by the CPUC for certain of SCW's water customers, and (iii) additional sales from CCWC. New rates in four customer service areas and implementation of regional rates in the customer service areas that comprise SCW's Region III were effective June 27, 2000. Additional increases in 2000 reflected the general rate case step and attrition increases for a number of SCW's ratemaking areas effective 2000. For further information, see the section entitled "*Regulatory Matters*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Electric operating revenues of \$14.4 million were 7.7% higher in 2000 as compared to 1999 due to a 6.8% increase in kilowatt-hour sales, primarily by residential and industrial customers.

Other revenues rose from \$390,000 in 1999 to \$799,000 in 2000 due to higher management fees from increased non-regulated activities.

Purchased water costs in 2000 increased by 15.2% to \$41.6 million as compared to \$36.1 million in 1999 due to a 9.6% increase in volumes purchased. The increase was also affected by a total of \$1.6 million in refunds from the Water Replenishment District of Southern California (WRD) received during 1999. There were no similar refunds received in 2000.

Costs of power purchased for resale to customers in SCW's Bear Valley Electric division in 2000 increased by 50.7% to \$10.7 million from the \$7.1 million recorded in 1999 due primarily to significant increases in wholesale market prices for energy in the state of California.

Costs of power purchased for pumping increased slightly by 1.6% to \$7.5 million in 2000 as compared to \$7.4 million recorded in 1999, chiefly as a result of an increase in energy costs, the effect of which was partially offset by a decrease in pumped groundwater in SCW's water supply mix.

Groundwater production assessments increased by 4.2% to \$7.5 million in 2000 from \$7.2 million in 1999 due primarily to increased costs for excess pumping in SCW's San Gabriel and San Dimas customer service areas to meet summer demands.

A negative entry for the provision for supply cost balancing accounts reflects an under-collection of previously incurred supply costs. Conversely, a positive entry for the provision for supply cost balancing accounts reflects recovery of previously under-collected supply costs. SCW has a higher net under-collected position in 2000 than in 1999 reflecting the increased energy costs in SCW's Bear Valley electric service area, the aggregate effect of which was partially offset by new water rates effective during 2000, authorized to collect previously incurred supply costs in SCW's various water customer service areas, as well as the WRD refunds during 1999 as discussed previously. For further information, see the sections entitled "*Regulatory Matters*" and "*Accounting for Supply Costs*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Other operating expenses increased by 7.4% from the \$15.6 million recorded in 1999 reflecting increased costs for water treatment, and increased labor and billing costs due to additional billing and customer service contracts obtained by ASUS.

Administrative and general expenses decreased by 8.7% to \$26.1 million in 2000 from \$28.6 million recorded in 1999. The decrease is due primarily to booking reduced reserves for litigation in 2000 and a reduction in pension expenses. For further information, see Part I, Item 3 in Legal Proceedings.

Depreciation expense in 2000 increased by 11.7% to \$15.3 million reflecting the effects of recording approximately \$50 million in net plant additions during 1999, depreciation on which began in 2000.

Maintenance expense increased to \$10.3 million in 2000 compared to the recorded \$9.8 million in 1999 due principally to increased maintenance on SCW's water supply sources and maintenance of water mains.

Taxes on income increased by approximately 13.5% to \$15.1 million in 2000 as compared to the \$13.3 million in 1999 due primarily to a 15.2% increase in pre-tax income, the effect of which was partially offset by a slightly lower effective tax rate.

Property and other tax expense increased by 7.6% in 2000 to \$7.1 million due to higher property valuation, increased franchise fees associated with higher revenues, and increased payroll taxes due to increased labor costs.

The loss of \$99,000 in other income recorded for 2000 is related to the effect of recording amortization and interest expenses, starting January 2000, on SCW's entitlement in the State Water Project. For further information, see Note 8 of the "*Notes to Financial Statements*" included in Part II, Item 8 in Financial Statements and Supplementary Data.

In 2000, interest expense increased by 9.3% to \$14.1 million from the \$12.9 million recorded in 1999 due to additional short-term borrowing at higher rates incurred by SCW to temporarily fund its capital expenditures.

Accounting for Supply Costs

As permitted by the CPUC prior to November 29, 2001, SCW maintained water and electric supply balancing accounts to account for under-collections and over-collections of revenues designed to recover such costs. Costs were recorded in income and charged to balancing accounts when such costs were incurred. The balancing accounts were reversed when such costs were recovered through rate adjustments or through refunds of previously incurred costs. SCW accrued interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper. CCWC does not maintain a supply cost balancing account.

On November 29, 2001, the CPUC ordered water utilities with existing water supply balancing accounts to cease booking amounts to such accounts. In its place, water utilities are now required to establish a memorandum account that works in a manner similar to the balancing account. As a result, the income statements of SCW will no longer include entries reflecting differences between actual unit water supply costs included in rates and actual water supply costs. SCW will not be entitled to recover any deferred costs for providing water service unless it is within its general rate case cycle and is earning less than its authorized rate of return on a weather normalized basis. As a result, any changes in water supply costs as well as any future authorized revenue increases for supply expenses may directly impact earnings. SCW may not be able to recover the under-collection of supply costs if it is earning a rate of return in excess of that allowed. SCW had a net under-collection position of \$3.4 million in its water supply balancing account at December 31, 2001 compared to \$2.5 million and \$2.0 million at December 31, 2000 and December 31, 1999, respectively.

Electric power costs incurred by SCW's Bear Valley Electric division will continue to be charged to a balancing account pursuant to the methodology in effect prior to November 29, 2001. The amount of the under-collection in the electric balancing account has increased from \$2.8 million at December 31, 1999, to \$8.6 million at December 31, 2000 and \$22.4 million at December 31, 2001. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of costs or additional delays in the recovery of costs during any period in which there has been a substantial run-up of costs. For further information, see the sections entitled "*Regulatory Matters*" and "*Electric Energy Situation in California*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Liquidity and Capital Resources

AWR

AWR funds its operating expenses and pays dividends on its outstanding Common and Preferred Shares primarily through dividends from its subsidiaries, principally SCW. AWR has a Registration Statement on file with the Securities and Exchange Commission (SEC) for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. As of December 31, 2001, approximately \$31.1 million remained for issuance under this Registration Statement. During 2001, AWR maintained a \$25 million credit facility, \$20 million of which was outstanding at December 31, 2001. This credit facility expired on January 2, 2002 although AWR expects to enter into a new credit facility in the second quarter of 2002 in the amount of \$75 million.

SCW

SCW funds the majority of its operating expenses, payments on its debt, and dividends on its outstanding Common Shares through internal sources. Internal sources of cash flow are provided primarily by retention of a portion of earnings, amortization of deferred charges and depreciation expense. Internal cash generation is influenced by factors such as weather patterns, environmental regulation, litigation, changes in supply costs, and timing of rate relief. For further information, see the sections entitled "*Risk Factors*" and "*Electric Energy Situation in California*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

SCW also relies on external sources, including equity investments from AWR, long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures. In January 2001, SCW issued \$20 million of long-term debt in a public offering with the proceeds used to reduce then outstanding bank borrowing. On March 30, 2001, AWR made an additional \$25 million equity investment in SCW. On November 14, 2001, SCW filed a Registration Statement with the SEC for issuance, from time to time, of up to \$100 million in debt securities. In December 2001, SCW issued \$50 million of long-term debt under this Registration Statement that initially reduced bank borrowing incurred to fund capital expenditures and power purchase costs.

Because of the seasonal nature of its water and electric operations, SCW utilizes its short-term borrowing capacity to finance current operating expenses, including expenses for purchased power distributed through its Bear Valley Electric customer service area. SCW has short-term revolving credit lines totaling an aggregate of \$47 million. Of the aggregate amount, \$13 million expires in May 2002, \$10 million expires in July 2002 and \$24 million expires in August 2002. SCW does not intend to enter into any new short-term revolving credit lines in 2002.

CCWC

CCWC funds the majority of its operating expenses, payments on its debt and dividends, if any, through internal sources. CCWC also relies on external sources, including long-term debt, contributions-in-aid-of-construction, advances for construction and install-and-convey advances, to fund the majority of its construction expenditures.

ASUS

ASUS funds its operating expenses primarily through contractual management fees.

Contractual Obligations and Other Commitments

In addition to contractual maturities, Registrant has certain debt instruments that contain annual sinking fund or other principal payments. Registrant believes that it will be able to refinance debt instruments at their maturity through

public issuance, or private placement, of debt or equity. Annual principal payments are generally made from cash flow from operations.

The following table reflects Registrant's contractual obligations and commitments to make future payments pursuant to contracts as of December 31, 2001. All obligations and commitments are obligations and commitments of SCW unless otherwise noted.

(\$ in thousands)	Payments/Commitments Due by Period (1)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Notes/Debentures(2)	\$185,600	-	\$12,500	-	\$173,100
Private Placement Notes(3)	28,000	-	-	-	28,000
Tax-Exempt Obligations(4)	20,820	87	285	218	20,231
Other Debt Instruments(5)	2,644	174	584	451	1,435
Bank Debt(6)	20,000	20,000	-	-	-
Preferred Shares (7)	1,920	1,920	-	-	-
Other Commitments (8)	50,072	-	-	-	-
Chaparral City Water Company (9)	9,388	499	1,684	620	6,585
TOTAL	\$318,444	\$22,680	\$15,053	\$1,289	\$229,351

(1) Excludes interest, dividends, commitment and facility fees.

(2) The Notes and Debentures are issued under an Indenture dated as of September 1, 1993. The Notes and Debentures do not contain any financial covenants that Registrant believes to be material or cross default provisions.

(3) The private placement notes are issued pursuant to the terms of Note Agreements with substantially similar terms. The Note Agreements contain restrictions on the payment of dividends, minimum interest coverage requirements and a negative pledge. For a further discussion of the dividend restrictions, see the sections entitled "*Frequency and Amount of Any Dividends Declared and Dividend Restrictions*" included in Part II, Item 5 in Market for Registrant's Common Equity and Related Stockholder Matters. Pursuant to the Note Agreements, SCW must maintain a minimum interest coverage ratio of two times interest expense. SCW does not currently have any outstanding mortgages or other encumbrances on its properties.

(4) Consists of obligations under a loan agreement supporting \$8 million in debt issued by the California Pollution Control Financing Authority, \$6 million in obligations supporting \$6 million in certificates of participation issued by the Three Valleys Municipal Water District and \$7 million of obligations incurred by SCW with respect to its 500 acre foot entitlement to water from the State Water Project. Except as described below, these obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions. SCW's obligations with respect to the certificates of participation issued by the Three Valleys Municipal Water District are supported by a letter of credit issued by Bank of America. SCW has reimbursement obligations to Bank of America that incorporate by reference SCW's obligations to Bank of America under its short-term revolving credit line with Bank of America discussed below in paragraph (6). The letter of credit expires on July 31, 2002. The letter of credit may be drawn if SCW has not obtained a replacement letter of credit prior to the expiration of this letter of credit. SCW has entered into an agreement with a developer for 350 acre-feet of its entitlement to water from the State Water Project. For further information, see the section entitled "*Regulatory Matters-Disallowance of Costs*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

(5) Consists of \$1.6 million outstanding under a fixed rate obligation incurred to fund construction of water storage and delivery facilities with the Three Valleys Municipal Water District, \$0.6 million outstanding under a variable rate obligation incurred to fund construction of water delivery facilities with the Three Valleys Municipal Water District and an aggregate of \$0.4 million outstanding under capital lease obligations. These obligations do not contain any financial covenants believed to be material to Registrant or any cross default provisions.

(6) Consists of \$20 million outstanding under a term loan facility for AWR that expired on January 2, 2002.

(7) AWR intends to redeem or repurchase all of its outstanding Preferred Shares during the first quarter of 2002.

(8) Other commitments consists of \$47 million available for borrowing by SCW at December 31, 2001 under short-term revolving credit loans \$13 million expiring in May 2002, \$10 million expiring in July 2002 and \$24 million expiring in July 2002, a \$2,513,813 irrevocable letter of credit that expires on April 30, 2002 for its self-insured workers compensation plan, an amount of \$296,000 with respect to a \$6,296,000 irrevocable letter of credit issued by Bank of America to support the certificates of participation of Three Valleys Municipal Water District (the other \$6,000,000 is reflected under tax-exempt obligations) that expires on November 15, 2003, an irrevocable letter of credit in the amount of \$250,000 that expires on October 1, 2002 for the deductible in Registrant's business automobile insurance policy and outstanding performance bonds of \$12,500 to secure performance under franchise agreements with governmental agencies. None of these obligations contain any financial covenants believed to be material to Registrant or any cross default provisions.

(9) Consists of \$8.1 million of obligations under a loan agreement supporting Industrial Development Revenue Bonds due in 2006 and a \$1.3 million repayment obligation to the United States Bureau of Reclamation. The loan agreement contains provisions that establishes a maximum of 65% debt in the capital structure, limits cash distributions when the percentage of debt in the capital structure exceeds 55% and requires a debt service coverage ratio of two times. The Bureau of Reclamation obligation does not contain any financial covenants believed to be material to Registrant or any cross default provisions.

Under the terms of its power purchase contracts with Mirant Americas Energy Marketing, LP and Pinnacle West Capital Corporation, SCW is required to post security, at the request of the seller, if SCW is in default under the terms of the contract and the future value of the contract is greater than the future value of contracts of a similar term on the date of default. SCW will be in default under the terms of these contracts if its debt is rated less than BBB- by Standard & Poor's Ratings Service ("S&P") or Fitch, Inc. ("Fitch") or less than Baa3 by Moody's Investor Services, Inc ("Moody's"). SCW currently has a rating of A+ by S & P and A2 by Moody's. Fitch does not rate SCW.

S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). Moody's debt ratings range from Aaa (best quality) to C (lowest quality). Securities ratings are not recommendations to buy, sell or hold a security and is subject to change or withdrawal at any time by the rating agency.

Electric Energy Situation in California

Background Information

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. On September 23, 1996, the State of California enacted legislation to provide a transition to a competitive market structure, which was expected to provide competition and customer choice, beginning January 1, 1998, with all consumers ultimately participating by 2002. SCW's Bear Valley electric customer service area was exempted by the CPUC from compliance with most of the provisions of the CPUC order and the state legislation.

On January 17, 2001, the Governor of the State of California proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities (resulting in blackouts), the unanticipated and dramatic increases in electricity prices and the insufficiency of electricity available from certain of California's utilities to prevent disruption of electric service in California. The Federal Energy Regulatory Commission ("FERC") also implemented a number of changes to the tariff for the California Independent Operator System ("Cal ISO") beginning in December 15, 2000 in an attempt to stabilize the market. The reasons for the high cost of energy are under investigation but are reported to include, among other things, limited supply caused by a lack of investment in new power plants to meet growth in demand, planned and unplanned outages of power plants, decreased availability of hydroelectric power from the Pacific Northwest due to lower than usual precipitation and higher demand for electricity in the region, transmission line constraints, increased prices for natural gas, the fuel used in many of the power plants serving the region, and a dysfunctional power market.

Spot market prices dropped dramatically in the summer of 2001 and continue to remain low. A number of factors could, however, result in a substantial increase in spot market prices and the prices of long term contracts for power and capacity. The mitigation measures taken by FERC expire on September 30, 2002 despite the fact that there continues to be insufficient generation resources in California and throughout the West, transmission line constraints, constraints on natural gas pipeline capacity and a dysfunctional power market. In addition, the Cal ISO has proposed a number of market reforms, such as the imposition of an available capacity obligation ("ACAP") on all load-serving

entities. The purpose of the ACAP obligation is to ensure that all load-serving entities have sufficient power resources to meet their maximum possible load. If an ACAP obligation of the type proposed by Cal ISO is adopted, SCW could be required to procure substantial additional power and capacity. The cost of procuring this additional power and capacity could have a material adverse impact on SCW if SCW is not permitted to recover the costs of procuring this additional power and capacity from its ratepayers on a timely basis.

Power Supply Arrangements

All electric energy sold by SCW to customers in its BVE customer service area is purchased from others. Historically, SCW purchased electric energy from the Southern California Edison unit of Edison International. However, in order to keep electric power costs as low as possible, SCW entered into an energy brokerage contract with Sempra Energy Corporation. SCW purchased electric energy for its BVE customer service area from Sempra during the period beginning March 26, 1996 through April 30, 1999.

In May 1999, SCW entered into a one-year block forward purchase contract with Illinova Energy Partners for 12 megawatts (MWs) of power at a price of \$28.00 per MW hour (MWh). In May 2000, SCW entered into a one-year, block forward purchase contract with Dynegy Power Marketing, Inc. (DYPM) for 12 MWs of electric energy for its BVE customer service area at a price of \$35.50 per MWh. This contract expired April 30, 2001.

SCW entered into a five-year, block forward purchase contract with Mirant Marketing to supply its BVE customer service area with 15 MWs of electric energy at a price of \$95 per MWh beginning April 1, 2001 through December 31, 2006. On December 20, 2001, SCW filed a complaint with FERC seeking to reduce the amount charged by Mirant Marketing under the terms of this contract due to the dysfunctional power market. Management is unable to predict what if any action FERC will take with respect to this complaint.

In June 2001, SCW executed an agreement with Pinnacle West Capital for an additional 8 MWs of electric energy to meet BVE's peak winter demands. The contract provides for pricing of \$75 per MWh from November 1, 2001 to March 31, 2002, \$48 per MWh from November 1, 2002 to March 31, 2003, and \$36 per MWh from November 1, 2003 to March 31, 2004. The average minimum load at SCW's Bear Valley Electric customer service area has been approximately 12 MWs. The average winter load has been 18 MWs with a winter peak of 38 MWs when the snowmaking machines at the ski resorts are operating. Under the terms of a contract with DYPM that expires on April 30, 2002, DYPM has agreed to provide electric energy to SCW in excess of the amounts it has purchased under the forward block purchase contracts previously described, to sell excess energy purchased by SCW under the terms of these contracts, if requested by SCW, and to act as scheduling coordinator for SCW. However, SCW has entered into a separate agreement to have Automated Power Exchange, Inc. act as its scheduling coordinator and will not utilize the services of DYPM. SCW has withheld payment on \$3.4 million invoiced by DYPM for the period December 20, 2000 through February 20, 2001, pending resolution of certain disputes. Based on information available to it, Registrant expects the amount in dispute to increase due to additional amounts billed by DYPM.

Transmission Constraints

Demand for energy in SCW's Bear Valley Electric customer service area generally has been increasing. However, the ability of SCW to deliver purchased power to these customers is limited by the ability of the transmission facilities owned by Southern California Edison Company to transmit this power. For further information, see Legal Proceedings in Part I for a discussion of litigation between Edison and SCW regarding Edison's obligations to upgrade these transmission facilities. In order to meet these increasing energy demands, SCW is considering a number of options including (i) the purchase of electric energy from on-site generation facilities installed by a third party, (ii) the use of portable generation, and (iii) the installation of generation owned by SCW. Each of these options may result in further increases in electric energy prices for customers of SCW's BVE customer service area.

Construction Program

SCW maintains an ongoing distribution main replacement program throughout its customer service areas, based on the priority of leaks detected, fire protection enhancement and a reflection of the underlying replacement schedule. In addition, SCW upgrades its electric and water supply facilities in accordance with industry standards, local requirements and CPUC requirements. SCW's Board of Directors has approved anticipated net capital expenditures of approximately \$55.4 million for 2002. Approved capital expenditures may be limited pending final CPUC approval of the settlement agreement regarding recovery of electric power costs at SCW's Bear Valley electric division. For further information, see the section

entitled “Rate Matters-Changes in Rates” included in Part II, Item 7 in Management’s Discussion and Analysis of Financial Condition and Results of Operation.

CCWC has a net capital budget of \$1.4 million for 2002. AWR and ASUS have no material capital commitments. However, ASUS actively seeks opportunities to own, lease or operate water and wastewater systems for governmental entities, which may involve significant capital commitments.

Regulatory Matters

Rate Regulation

SCW is subject to regulation by the CPUC, which has broad powers with respect to service and facilities, rates, classifications of accounts, valuation of properties, the purchase, disposition and mortgaging of properties necessary or useful in rendering public utility service, the issuance of securities, the granting of certificates of public convenience and necessity as to the extension of services and facilities and various other matters. CCWC is subject to regulation by the ACC.

Rates that SCW and CCWC are authorized to charge are determined by the CPUC and the ACC, respectively, in general rate cases and are derived using rate base, cost of service and cost of capital, as projected for a future test year in California and using an historical test year, as adjusted in Arizona. Rates charged to customers vary according to customer class and rate jurisdiction and are generally set at levels allowing for all prudently incurred costs, including a return on rate base sufficient to pay principal and interest on debt securities, preferred stock distributions and a reasonable rate of return on equity. Rate base generally consists of the original cost of utility plant in service, plus certain other assets, such as working capital and inventory, less accumulated depreciation on utility plant in service, deferred income tax liabilities and certain other deductions. Adjustments for purchased water and power are permitted in California, to a certain extent, but generally not Arizona. For further information, see the section entitled “Accounting for Supply Costs” included in Part II, Item 7 in Management’s Discussion and Analysis of Financial Condition and Results of Operation.

Neither AWR nor ASUS are regulated by the CPUC. The CPUC does, however, regulate certain transactions between SCW and its affiliates. The ACC also regulates certain transactions between CCWC and its affiliates.

The 22 customer service areas of SCW are grouped into 9 water districts and 1 electric district for ratemaking purposes. Water rates vary among the 9 ratemaking districts due to differences in operating conditions and costs. SCW monitors operations on a regional basis in each of these districts so that applications for rate changes may be filed, when warranted. Under the CPUC’s practices, rates may be increased by three methods: (i) general rate case increases (GRC’s), (ii) offsets for certain expense increases including but not limited to electricity supply cost offset and balancing account amortization, and (iii) advice letter filings related to certain plant additions and other operating cost increases. GRC’s are typically for three-year periods, which include step increases for the second and third year. Rates are based on a forecast of expenses and capital costs. GRC’s have a typical regulatory lag of one year. Offset rate increases and advice letter filings typically have a two to four month regulatory lag.

Changes in Rates

The following table lists information on estimated annual rate changes approved by the CPUC during 2001, 2000 and 1999.

Year	Supply Cost Offset	Balancing Account Amortization	General and Step Increases	Advice Letters	Total
2001	\$ 1,364	\$ 4,422	\$ 6,943	\$ 595	\$ 13,324
2000	-	(1,474)	6,973	1,040	6,539
1999	\$ 23	\$ 1,349	\$ 15,175	\$ 657	\$ 17,204

New water rates with an annual increase of approximately \$2.5 million for seven ratemaking districts in SCW’s Region I were implemented in January 2001. SCW’s application to combine the seven ratemaking customer service areas

into one regional rate was, however, denied by the CPUC. Step increases of approximately \$1.7 million for the customer service areas in SCW's Region III were also effective in January 2001. An attrition increase of approximately \$2.8 million for Region II was in effect from February 2001.

As of December 31, 2001, SCW had accrued approximately \$22.4 million in under-collected purchased power costs included in the electric balancing account. In May 2000, SCW filed an Advice Letter with the CPUC for recovery over a five-year period of approximately \$2.4 million in under-collected power costs and removal of a negative amortization authorized by the CPUC in 1997. The CPUC issued a final order on May 24, 2001 authorizing an overall rate increase of 12.5%, with a condition of conducting a subsequent audit on the expenses included in the electric balancing account. The audit has been conducted and provided to the CPUC.

On August 23, 2001, the CPUC also approved a second Advice Letter filed by SCW on April 9, 2001 seeking recovery, over five years, of an additional under-collection of \$8.7 million for energy costs. Rates in SCW's BVE customer service area have increased by approximately 14.8% as a result.

On May 11, 2001, SCW filed with the CPUC for an additional increase in electric rates to recover energy costs under the purchase agreement with Mirant Marketing. SCW subsequently withdrew the Advice Letter and filed an application on August 17, 2001 with the CPUC, along with a motion requesting immediate recovery of these costs, subject to refund after completion of the review process. The CPUC rejected SCW's motion for immediate recovery.

On February 8, 2002, a settlement agreement among SCW, all intervening parties and the Office of Ratepayer Advocates ("ORA") was filed with the CPUC that will permit SCW to recover \$77 per MWh of purchased power costs through rates. SCW will only be allowed to include up to a weighted annual energy purchase cost of \$77 per MWh each year for 10 years in its balancing account. To the extent SCW's actual average annual weighted cost for purchased power is less than \$77 per MWh, the differential will recover amounts included in the electric supply balancing account. Conversely, to the extent that actual average annual weighted costs for power purchased exceed the \$77 per MWh amount, SCW will not be able to include these amounts in its balancing account and such amounts will be expensed against income. SCW has established approximately \$7.9 million in reserves as of December 31, 2001 against potential non-recovery of electric power costs. In addition, the settlement extended the previously approved surcharges for an additional five years to allow SCW an opportunity to collect amounts remaining in its electric cost balancing account. The proposed settlement also requires SCW to pursue its complaint filed with FERC in which SCW has requested FERC to reduce the prices in its power purchase contract with Mirant Marketing due to the dysfunctional power market that existed at the time the agreement was signed. A final decision in this matter is expected during the second quarter of 2002. Management believes the CPUC will support the settlement agreement, but is unable to predict when or if the CPUC will authorize recovery of any or all of the costs agreed to in the settlement. For further information, see the sections entitled "*Liquidity and Capital Resources*" and "*Electric Energy Situation in California*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

In March 2001, the CPUC approved SCW's Advice Letters to increase costs of purchased power incurred to pump water for its water customers by \$761,351 included in base water rates for each of its ratemaking districts. In April 2001, SCW filed additional Advice Letters by ratemaking areas to increase water rates by approximately \$2.3 million company-wide to recover additional electric base rate increases, authorized recently by the CPUC for the Southern California Edison Company and the Pacific Gas and Electric Company. The CPUC approved in the fourth quarter of 2001 increases of approximately \$672,900 in base water rates. For further information, see the section entitled "*Electric Energy Situation in California*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

The remaining Advice Letters filed by SCW to recover increased power costs used for pumping were rejected by the CPUC due to the change in procedures for collections of water supply costs on November 29, 2001. See the section entitled "Accounting for Supply Costs" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Disallowance of Costs

In 1993, the CPUC disallowed \$1.6 million of costs incurred in construction of a water treatment facility in SCW's Clearlake customer service area and Registrant wrote off the disallowed amount at that time. Based on new water quality standards, in 2000, SCW re-applied to the CPUC for inclusion of the disallowed amount in rate base. A draft decision issued on March 30, 2001 by the CPUC allows SCW to include \$500,000 of the \$1.6 million in the regulated

rate base, although an alternate draft decision issued by one of the CPUC Commissioners proposed to deny the relief sought by SCW in its application. An Administrative Law Judge subsequently reopened the proceeding in August 2001 requiring additional information. A final order is not anticipated until the second quarter of 2002.

On April 22, 1999, the CPUC issued an order denying SCW's application seeking approval of its recovery through rates of costs associated with its 500 acre-foot participation in the Coastal Aqueduct Extension of the State Water Project (SWP). SCW's participation in the SWP commits it to a 40-year entitlement. SCW's investment of approximately \$9.5 million in SWP is currently included in Other Property and Investments. The remaining balance of the related liability of approximately \$7 million is recorded as other long-term debt. In October 2001, SCW entered into an agreement with a developer, which obligates the developer to make payments to SCW in exchange for SCW's reservation and dedication of up to 350 acre-feet per year of the SWP entitlement for a five-year period. SCW intends to recover its remaining investment from other developers or through a sale of its remaining entitlement. SCW believes that its full investment and on-going costs associated with its ownership will be recovered.

Other Regulatory Matters

In December 1999, Registrant agreed to acquire Peerless Water Co., a privately owned water company in Bellflower, California, subject to satisfaction of certain conditions, including CPUC approval. The transaction, however, was denied by the CPUC on November 29, 2001. As a result, the acquisition agreement with Peerless Water Co. has been terminated.

There are no active regulatory proceedings affecting CCWC or its operations.

Environmental Matters

1996 Amendments to Federal Safe Drinking Water Act

On August 6, 1996, amendments (the 1996 SDWA amendments) to the Safe Drinking Water Act (the SDWA) were signed into law. The 1996 SDWA revised the 1986 amendments to the SDWA with a new process for selecting and regulating contaminants. The U. S. Environmental Protection Agency (EPA) can only regulate contaminants that may have adverse health effects, are known or likely to occur at levels of public health concern, and the regulation of which will provide "a meaningful opportunity for health risk reduction." The EPA has published a list of contaminants for possible regulation and must update that list every five years. In addition, every five years, the EPA must select at least five contaminants on that list and determine whether to regulate them. The new law allows the EPA to bypass the selection process and adopt interim regulations for contaminants in order to address urgent health threats. Current regulations, however, remain in place and are not subject to the new standard-setting provisions. The DOHS, acting on behalf of the EPA, administers the EPA's program in California.

The 1996 SDWA amendments allow the EPA to base primary drinking water regulations on risk assessment and cost/benefit considerations and on minimizing overall risk. The EPA must base regulations on best available, peer-reviewed science and data from best available methods. For proposed regulations that involve the setting of maximum contaminant levels (MCL's), the EPA must use, and seek public comment on, an analysis of quantifiable and non-quantifiable risk-reduction benefits and costs for each such MCL.

SCW and CCWC currently test their wells and water systems according to requirements listed in the SDWA. Water from wells found to contain levels of contaminants above the established MCL's is treated to reduce contaminants to acceptable levels before it is delivered to customers or the wells are shut down.

Since the SDWA became effective, SCW has experienced increased operating costs for testing to determine the levels, if any, of the constituents in SCW's sources of supply and additional expense to lower the level of any contaminants in order to meet the MCL standards. Such costs and the costs of controlling any other contaminants may cause SCW to experience additional capital costs as well as increased operating costs.

The CPUC and ACC ratemaking processes provide SCW and CCWC with the opportunity to recover prudently incurred capital and operating costs associated with water quality. Management believes that such incurred and expected future costs will be authorized for recovery by the CPUC and ACC, as appropriate.

Proposed Enhanced Surface Water Treatment Rule

On July 29, 1994, the EPA proposed an Enhanced Surface Water Treatment Rule (ESWTR), which would require increased surface-water treatment to decrease the risk of microbial contamination. The EPA has proposed several versions of the ESWTR for promulgation. The version selected for promulgation will be determined based on data collected by certain water suppliers and forwarded to the EPA pursuant to EPA's Information Collection Rule, which requires such water suppliers to monitor microbial and other contaminants in their water supplies and to conduct certain tests in respect of such contaminants. The EPA has adopted an Interim ESWTR applicable only to systems serving greater than 10,000 persons. On April 10, 2000, EPA published the proposed Long Term 1 Enhanced Surface Water Treatment Rule and Filter Backwash Rule (LT1FBR) in the Federal Register. This proposed rule will apply to each of SCW's five surface water treatment plants and the CCWC's surface water treatment plant. It basically extends the requirements of the ESWTR to systems serving less than 10,000 persons and will require some systems to institute changes to the return of recycled filter backwash flows within the treatment process to reduce the effects of recycled water on compromising microbial control. Registrant is presently unable to predict the ultimate impact of the LT1FBR, but it is anticipated that all plants will achieve compliance within the three year to five-year time frames identified by EPA.

Regulation of Disinfectant/Disinfection By-Products

SCW and CCWC are also subject to regulations concerning disinfectant/disinfection by-products (DBP's). Stage I of the regulations were effective in November 1998 with full compliance required by 2002. Stage I requires reduction of trihalomethane contaminants from 100 micrograms per liter to 80 micrograms per liter. Two of SCW's systems are immediately impacted by this rule. SCW implemented modifications to the treatment process in its Bay Point and Cordova systems. Both systems were in full compliance by the end of 2001. A third SCW plant will require treatment modifications in order to comply with this rule. SCW is conducting studies to determine the best treatment methods to comply with this rule.

The EPA is not allowed to use the new cost/benefit analysis provided for in the 1996 SDWA amendments for establishing the Stage II rules applicable to DBP's but may utilize the regulatory negotiating process provided for in the 1996 SDWA amendments to develop the Stage II rule. The final rule is expected in 2002.

Ground Water Rule

On May 10, 2000, the EPA published the proposed Ground Water Rule (GWR), which establishes multiple barriers to protect against bacteria and viruses in drinking water systems that use ground water. The proposed rule will apply to all U.S. public water systems that use ground water as a source. The proposed GWR includes system sanitary surveys conducted by the state to identify significant deficiencies; hydrogeologic sensitivity assessments for undisinfected systems, source water microbial monitoring by systems that do not disinfect and draw from hydrogeologically sensitive aquifer or have detected fecal indicators within the system's distribution system; corrective action; and compliance monitoring for systems which disinfect to ensure that they reliably achieve 4-log (99.99%) inactivation or removal of viruses. The GWR is scheduled to be issued as a final regulation in 2002. While no assurance can be given as to the nature and cost of any additional compliance measures, if any, SCW and CCWC do not believe that such regulations will impose significant compliance costs, since they already currently engage in disinfection of their groundwater systems.

Regulation of Radon and Arsenic

The regulation on arsenic was published in January 2001 with a new federal standard of 10 parts per billion (ppb). Compliance with an MCL of 10 ppb will require implementation of wellhead treatment remedies for eight affected wells in SCW's system and three wells in CCWC's system. However, the EPA subsequently withdrew the pending arsenic standard for a sixty-day review to seek independent reviews of both the science behind the standard and of the cost estimates to communities of implementing the rule. On October 31, 2001, EPA announced that the arsenic standard in drinking water would be 10 parts per ppb. The effective date for utilities to comply with the standard will be January 2006. It is still not clear what will happen between now and the current effective date of the arsenic regulation of February 22, 2002. No further actions by EPA would simply make this regulation become effective as of that date.

The EPA has proposed new radon regulations following a National Academy of Sciences risk assessment and study of risk-reduction benefits associated with various mitigation measures. The National Academy of Sciences study is in agreement with much of EPA's original findings but has slightly reduced the ingestion risk initially assumed by EPA. EPA established an MCL of 300 Pico Curies per liter based on the findings and has also established an alternative MCL

of 4000 Pico Curies per liter, based upon potential mitigation measures for overall radon reduction. It is our understanding that the United States Office of Management and Budget has sent the radon rule back to EPA for reconsideration. The final rule was expected to be effective in August 2000, but has been delayed. SCW and CCWC currently monitor their wells for radon in order to determine the best treatment appropriate for affected wells.

Voluntary Efforts to Exceed Minimum Surface Water Treatment Requirements

SCW is a voluntary member of the EPA's "Partnership for Safe Water", a national program designed to further protect the public from diseases caused by cryptosporidium and other microscopic organisms. As a volunteer in the program, SCW commits to exceed minimum operating requirements governing surface water treatment, optimize surface water treatment plant operations and ensure that its surface water treatment facilities are performing as efficiently as possible.

Fluoridation of Water Supplies

SCW is subject to State of California Assembly Bill 733, which requires fluoridation of water supplies for public water systems serving more than 10,000 service connections. Although the bill requires affected systems to install treatment facilities only when public funds have been made available to cover capital and operating costs, the bill requires the CPUC to authorize cost recovery through rates should public funds for operation of the facilities, once installed, become unavailable in future years.

Ammonium Perchlorate Action Level Activities

The California Department of Health Services (DOHS) recently reduced the action level for ammonium perchlorate. Although neither the EPA nor the DOHS have established a drinking water standard for ammonium perchlorate. In January 1997 DOHS established an action level of 18 parts per billion (ppb). Action levels are advisory in nature and are not enacted into law. In January 2002, SCW was informed that DOHS has reduced the action level from 18 ppb to a level of 4 ppb, based upon new reference dosage for health risk information from EPA. SCW has removed eight wells from service in four separate systems since they contained ammonium perchlorate in amounts in excess of this reduced action level. SCW is continuing to periodically monitor all its wells to determine that levels of perchlorate are below the action level currently in effect.

Matters Relating to SCW's Arden-Cordova System

In January 1997, SCW was notified that ammonium perchlorate in amounts above the state-determined action level had been detected in three of its wells serving its Rancho-Cordova system. Aerojet-General Corp. has, in the past, used ammonium perchlorate in oxidizing rocket fuels. SCW took the three wells detected with ammonium perchlorate in excess of the 1997 action levels out of service. In April 1997, SCW found ammonium perchlorate in three additional wells and, at that time, removed those wells from service until it was determined that the levels were below the state-determined action level. Those wells were returned to service. SCW periodically monitors these wells to determine that levels of ammonium perchlorate are below the action level currently in effect. In January 2002, SCW was informed that DOHS was reducing the action level from 18 ppb to 4 ppb and subsequently removed three wells from service since they contained ammonium perchlorate in amounts in excess of this reduced action level.

In February 1998, SCW was informed that nitrosodimethylamine (NDMA) had been detected in amounts in excess of the EPA reference dosage for health risks in four of its wells in its Rancho-Cordova system. The wells have been removed from service. An additional well was also removed from service in September 1999 due to the contamination and another well was removed from service in January 2002. The DOHS established an initial action level of 2 parts per trillion (ppt). In February 2002, DOHS increased the action level to 10 ppt. Management is investigating the impact, if any, that the increase in the action level may have on its abilities to put certain wells back into service. NDMA is an additional by-product from the production of rocket fuel and it is believed that such contamination is related to the activities of Aerojet. Aerojet has reimbursed SCW for constructing a pipeline to interconnect with the City of Folsom water system to provide an alternative source of water supply in SCW's Rancho-Cordova customer service area and has reimbursed SCW for costs associated with the drilling and equipping of two new wells. As of December 31, 2001, Aerojet had previously reimbursed SCW \$4.5 million of the approximately \$17 million in costs SCW has incurred. The remainder of the costs is subject to further reimbursement, including interest. Reimbursements received from Aerojet will reduce SCW's utility plant and costs of purchased water.

For further information regarding litigation related to contamination of ground water in Sacramento County, see the section entitled “*Other Water Quality Litigation*” included in Part I, Item 3 in Legal Proceedings.

Matters Relating to SCW’s Culver City System

The compound, methyl tertiary butyl ether (MTBE), an oxygenate used in reformulated fuels, has been detected in the Charnock Basin, located in the city of Santa Monica and within SCW’s Culver City customer service area. At the request of the Regional Water Quality Control Board, the City of Santa Monica and the California Environmental Protection Agency, SCW removed two of its wells in the Culver City system from service in October 1996 to help in efforts to avoid further spread of the MTBE contamination plume. Neither of these wells have been found to be contaminated with MTBE. SCW is purchasing water from the Metropolitan Water District of Southern California (MWD) at an increased cost to replace the water supply formerly pumped from the two wells removed from service.

Pursuant to an agreement with SCW in December 1998, two of the potentially responsible parties (the Participants) have reimbursed SCW’s legal and consulting costs related to this matter and for increased costs incurred by SCW in purchasing replacement water. However, a notice of termination from the Participants to the settlement agreement was received in October 1999 claiming overpayments for replacement water in excess of SCW’s water rights. No assurances can be given that future negotiations will result in complete restoration of SCW’s water rights or that continued reimbursement of SCW’s costs will be forthcoming.

Matters Relating to the Charnock Basin

On September 22, 1999, the U.S. EPA and the Los Angeles Regional Water Quality Control Board ordered Shell Oil Company, Shell Oil Products Company and Equilon Enterprises LLC to provide replacement drinking water to both SCW and the City of Santa Monica due to MTBE contamination of the Charnock Basin drinking water. The EPA has ordered Shell Oil to reimburse SCW for water replacement costs. The agencies are continuing to investigate the causes of MTBE pollution and intend to ensure that all responsible parties contribute to its clean up. SCW is unable to predict the outcome of the EPA’s enforcement efforts.

On April 25, 2001, Registrant filed a lawsuit against all the potentially responsible parties, who stored, transported and dispensed gasoline containing methyl tertiary butyl ether (MTBE) in underground storage tanks, pipelines or other related infrastructure. MTBE polluted and contaminated water existed in areas of the basin from which SCW has pumped water through its Charnock Well Field. As a result, SCW ceased operation of its Charnock Well Field in October 1996. Registrant has reached an agreement in this matter that assigns the prosecution of litigation against the potentially responsible parties to the City of Santa Monica, California (Santa Monica). As part of the agreement and in exchange for an assignment payment, Santa Monica will prosecute the case against the potentially responsible parties. Registrant expects that Santa Monica will sign the agreement by the end of the first quarter of 2002. For further information, see section entitled “*Other Water Quality Litigation*” included in Part I, Item 3 in Legal Proceedings.

Matters Relating to SCW’s Yorba Linda System

The compound MTBE has been detected in three wells serving SCW’s Yorba Linda system. Two of the wells are standby wells and the third well has not shown MTBE above the DOHS secondary standard of 5.0 ppb at this time. SCW has constructed an interconnection with the MWD to provide for additional supply in the event the third well experiences levels of detection in excess of the DOHS standard.

SCW has met with the Regional Water Quality Control Board, the Orange County Water District, the City of Anaheim, the DOHS and three potentially responsible parties (PRP’s) to define the extent of the MTBE contamination plume and assess the contribution from the PRP’s. The PRP’s have voluntarily initiated a work plan for regional investigation. While there have not been significant disruptions to the water supply in Yorba Linda at this point in time, no assurances can be given that MTBE contamination will not increase in the future.

Security Issues

Since the tragic events of September 11, 2001, water utilities, including Registrant, have been advised to increase security at key facilities in order to avoid contamination of water supplies and other disruptions of service. Registrant has implemented a number of steps to address this concern, including the engagement of a security firm to develop further protection measures and an ongoing review of new industry and regulatory agency security measures. Although Registrant

has not experienced any material increase in costs related to these measures, management is unable to predict what, if any, additional measures will be implemented and what such measures may cost. Registrant intends to seek recovery of any such costs from the CPUC and the ACC. Management is unable to predict if these regulatory bodies will authorize recovery of any or all of these costs.

Water Supply

SCW's Water Supply

During 2001, SCW supplied a total of 84,103,000 CCF of water. Of this amount, approximately 58.5% came from pumped sources and 39.6% was purchased from others, principally the MWD. The Bureau of Reclamation (the Bureau) supplied the remaining amount under a no-cost contract. During 2000, SCW supplied 87,439,000 CCF of water, 55.7% of which came from pumped sources, 42.4% was purchased, and the Bureau supplied the remainder.

SCW's water supply and revenues are significantly affected by changes in meteorological conditions. For the water year ending in September of 2001, California precipitation was at 75% of normal levels with the biggest deficits in Northern California. Southern California experienced only slightly less precipitation than normal, 92% for South Coast and 104% for Central Coast. In January of 2001 statewide reservoirs were at 107% of normal levels.

For 2002 statewide the numbers should be much the same albeit reversed with Northern California returning to normal precipitation levels and Southern California entering a slightly dryer and warmer weather pattern. Statewide from October to December precipitation was 130% of normal and reservoirs in January of 2002 were at 95% of normal. As of January 22, 2002, snow pack water content was 105% of average with the North at 110%, Central at 105%, and Southern California at 100%.

In the Pacific where the El Nino/Southern Oscillation (ENSO) is formed, near average, sea surface temperature (SST) conditions are predicted through March 2002, followed by slightly warmer than normal SST from mid-March through June. Should the SST warming trend continue, the later half of 2002 could see a mild El Nino effect with associated increases in precipitation for areas of the Southwestern part of the United States.

Although overall groundwater conditions remain at adequate levels, certain of SCW's groundwater supplies have been affected to varying degrees by various forms of contamination which, in some cases, have caused increased reliance on purchased water in its supply mix. For further information, see Part I, Item 3 in Legal Proceedings.

The MWD is a water district organized under the laws of the State of California for the purpose of delivering imported water to areas within its jurisdiction. Registrant has 57 connections to the water distribution facilities of MWD and other municipal water agencies. MWD imports water from two principal sources: the Colorado River and the State Water Project (SWP). Available water supplies from the Colorado River and the SWP have historically been sufficient to meet most of MWD's requirements and MWD's supplies from these sources are anticipated to remain adequate through 2002. MWD's import of water from the Colorado River is expected to decrease in future years due to the requirements of the Central Arizona Project (CAP). In response, MWD has taken a number of steps to secure additional storage capacity and to increase available water supplies, by effecting transfers of water rights from other sources. Foremost among the safeguards is Diamond Valley Reservoir, a reservoir in southwest Riverside County. Capable of holding 800,000 acre-feet (AF) or 269 billion gallons, the reservoir is currently more than half full.

CCWC's Water Supply

The Colorado River flow has been low. For the 2001 water year 6,929,200 AF of water flowed into Lake Powell from the Colorado River, which is only 52% of normal. However the Lake itself is currently at 75% of capacity, which is 95% of normal for the end of December 2001. If the SST warming trend continues, it is likely that precipitation will return to normal levels over the 2002 water year. In December 2001 there was 279,700 AF of water flow into Lake Powell from the Colorado River, which is 75% of average. The snow pack water content in the upper Colorado River Basin was 70% of normal as of January 31, 2002. The National Weather service expects that normal seasonal rain and snow should gradually improve water supply in Registrant's water service areas.

CCWC obtains its water supply from three operating wells and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdown, and to keep the well system in optimal

operating condition. CCWC has an Assured Water Supply designation, by decision and order of the Arizona Department of Water Resources, providing in part that, subject to its requirements, CCWC currently has a sufficient supply of ground water and CAP water which is physically, continuously and legally available to satisfy current and committed demands of its customers, plus at least two years of predicted demands, for 100 years.

Notwithstanding such a designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can currently rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs.

Business Segments

AWR currently has three principal business units: water service and electric distribution utility operations conducted through its SCW subsidiary, water service utility operations conducted through its CCWC subsidiary, and non-utility activities conducted through its ASUS subsidiary. All activities of SCW currently are geographically located within the State of California. All activities of CCWC are located in the state of Arizona. All activities of ASUS are conducted in California and Arizona. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. For further information, see Note 11 to the "Notes to Financial Statements" included in Part II, Item 8 in Financial Statements and Supplementary Data.

Risk Factor Summary

You should carefully read the risks described below and other information in this Form 10-K in order to understand certain of the risks of our business.

Our liquidity, and in certain circumstances, earnings, could be adversely affected by increases in electricity prices in California.

Under California law, we are permitted to file for a rate increase to recover electric power costs not being recovered in current rates. Increases in electric power costs generally have no direct impact on profit margins, unless recovery of these costs is disallowed, but do affect cash flows and can therefore impact the amount of our capital resources. Electric power costs increased substantially in California during the fall of 2000 until the summer of 2001. As of December 31, 2001, SCW had accrued \$22.4 million in unrecovered power costs in its electric balancing accounts. FERC mitigation measures are expected to expire on September 30, 2002. In addition, Cal ISO has proposed a number of market reforms that could require SCW to procure substantial additional power and/or capacity. This could result in an increase in the level and volatility of electric prices in California.

We have been funding these power costs from our short-term borrowing facilities. In addition, in April 2001, the Company implemented a Cash Preservation Plan to control costs and temporarily to limit capital and maintenance expenditures. SCW has filed Advice Letters to recover the under-collection of power costs in its water and electric balancing accounts and intends to continue to do so until such time as its actual power costs are being fully recovered in rates. However, due to the nature of the regulatory process, there is a risk of disallowance of full recovery of supply costs during any period in which there has been a substantial run-up in these costs. Any material disallowance of purchased power costs could have a material adverse impact on cash flow and earnings. In addition, we believe that timely action by the CPUC to authorize the recovery of these costs is necessary to avoid a material adverse effect on SCW's financial condition. Delays in obtaining regulatory approval or disallowance of recovery of costs could also affect SCW's ability to pay dividends to AWR. AWR's ability to pay dividends on its Common Shares is dependent upon the payment of dividends by SCW.

We have reached a settlement with the CPUC Staff and all other intervening parties that would authorize us to include \$0.077 per kilowatt-hour (KWh) in rates to recover our electric power costs. If our actual annual costs exceed this amount, we cannot recover the excess and the amount will be expensed against income. If our actual annual energy costs are less than \$0.077 per KWh, we can use this difference to collect amounts previously included in the balancing account. We are unable to predict if the CPUC will approve the settlement and, if the settlement is approved, whether or not the CPUC will implement new rates.

The Company has established approximately \$7.9 million in reserves for its Bear Valley Electric division for possible non-recovery of power costs included in the electricity supply cost balancing accounts.

Changes in water supply costs, either unit cost change or supply mix change, will directly impact the Company's earnings.

Prior to November 29, 2001, we recovered certain water supply costs through a balancing account mechanism. Water supply costs include the cost of purchased water and power and groundwater production assessments. The balancing account was not, however, designed to insulate SCW's earnings against changes in supply mix. As a result, SCW was not permitted to recover increased costs due to increased use of purchased water, which is generally more expensive than groundwater, through the balancing account mechanism.

On November 29, 2001, the CPUC ordered SCW to suspend the use of all current water balancing account, and instead started a memorandum account for each offsettable expense of purchased water, purchased power and pump tax for its water service areas. We may recover certain water supply costs based on the memorandum account if we are within our rate case cycle and we are not earning an amount in excess of our authorized rate of return. SCW may not otherwise recover increased costs due to increased unit cost. Additionally, changes in water supply costs compared to the authorized amount, as well as any future authorized offset increases may directly affect our earnings.

Significant claims have been asserted against us in water quality litigation.

SCW and others have been sued in twenty water quality related lawsuits alleging personal injury and property damage as a result of the delivery of water that was allegedly contaminated. Seventeen of the lawsuits involve plaintiffs who received water from the San Gabriel Basin in Los Angeles County. The other lawsuits involve plaintiffs in Sacramento County.

In March 1998, the CPUC issued an Order Instituting Investigation as a result of water quality lawsuits being filed against water utilities in California. On November 2, 2000, the CPUC issued a final order concluding that the CPUC has jurisdiction to regulate the service of water utilities with respect to the health and safety of that service; that DOHS requirements governing drinking water quality adequately protect the public health and safety; and that regulated water utilities, including SCW, have satisfactorily complied with past and present drinking water quality requirements.

On February 5, 2002, the California Supreme Court ruled that water utilities regulated by the CPUC may be sued for damages based on allegations that the utility failed to comply with federal and state safe drinking water requirements. As a result, plaintiffs may proceed on their claims against SCW to the extent that these claims are based on violations of federal and state law.

SCW is unable to predict the outcome of any of this litigation or the extent to which it will be able to recover its litigation costs from ratepayers or other third parties.

Our operating costs have increased and are expected to continue to increase as a result of groundwater contamination.

SCW's operations have been impacted by groundwater contamination in certain of its service territories. We have taken a number of steps to address this contamination, including the removal of wells from service, the construction of water treatment facilities and securing alternative sources of supply from other areas not affected by the contamination.

In some cases, potentially responsible parties have reimbursed us for our costs. In other cases, we have taken legal action against parties that we believe to be potentially responsible for the contamination.

Certain government officials have suggested that water producers, such as SCW and CCWC, may have liability under certain environmental statutes if their pumping operations affect the movement of the contamination. SCW has been required to remove certain wells from service because its pumping activities might affect the movement of contamination in other service areas. Currently, neither the Environmental Protection Agency nor any other governmental agency has identified the Company or, to our knowledge, any other water producer, as a potentially responsible party. We cannot assure you, however, that SCW or CCWC will not be identified as a potentially responsible party in the future. Our future results of operations could be adversely affected if either SCW or CCWC is required to pay clean-up costs and is not allowed to recover such costs in rates.

Environmental regulation has increased, and is expected to continue to increase, our operating costs.

SCW and CCWC are subject to increasingly stringent environmental regulations that will result in increasing capital and operating costs. These regulations include:

- The 1996 amendments to the Safe Drinking Water Act that require increased testing and treatment of water to reduce specified contaminants to maximum contaminant levels
- Approved regulations requiring increased surface-water treatment to decrease the risk of microbial contamination; these regulations will affect SCW's five surface water treatment plants and one CCWC plant
- Additional regulation of disinfection/disinfection byproducts expected to be adopted before the end of 2002; these regulations will potentially affect two of SCW's systems
- Additional regulations expected to be adopted requiring disinfection of certain groundwater systems
- Currently pending regulation of arsenic and radon
- California customer requirements to fluoridate public water systems serving over 10,000 customers
- Reduction in the action level for ammonium perchlorate to 4 ppb in 2002; we have removed 8 wells from service due to the presence ammonium perchlorate above action levels.

SCW and CCWC may be able to recover costs incurred to comply with these regulations through the ratemaking process for their regulated systems. We may also be able to recover certain of these costs under our contractual arrangements with municipalities. In certain circumstances, we may be able to recover costs from parties responsible or potentially responsible for contamination.

The adequacy of our water supplies depends upon a variety of factors beyond our control.

The adequacy of our water supplies varies from year to year depending upon a variety of factors, including:

- Rainfall
- Availability of Colorado River water
- The amount of water stored in reservoirs
- The amount of water used by our customers and others
- Water quality, and
- Legal limitations on use

Population growth and increases in the amount of water used have increased limitations on use to prevent overdrafting of groundwater basins. The import of water from the Colorado River, one of SCW's important sources of supply, is expected to decrease in future years due to the requirements of the Central Arizona Project ("CAP"). We have also taken wells out of service due to groundwater contamination.

CCWC obtains its water supply from operating wells and from the Colorado River through the CAP. CCWC's water supply may be subject to interruption or reduction if there is an interruption or reduction in CAP water.

Water shortages may affect us in a variety of ways:

- They adversely affect supply mix by causing us to rely on more expensive purchased water
- They adversely affect operating costs
- They may result in an increase in capital expenditures for building pipelines to connect to alternative sources of supplies and reservoirs and other facilities to conserve or reclaim water

We may be able to recover increased operating and construction costs for our regulated systems through the ratemaking process. We may also be able to recover certain of these costs under the terms of our contractual agreements with municipalities. In certain circumstances, we may recover these costs from third parties that may be responsible, or potentially responsible, for groundwater contamination.

Our earnings are greatly affected by weather during different seasons.

The demand for water and electricity varies by season. Therefore, the results of operations for one period may not indicate results to be expected in another period. For instance, most water consumption occurs during the third quarter of each year when weather tends to be hot and dry. On warm days, use of water by residential and commercial customers may be significantly greater than on cold days because of the increased use of water for outdoor landscaping. Likewise the demand for electricity in our Big Bear service area is greatly affected by winter snows. An increase in winter snows reduces the use of snow making machines at ski resorts in the Big Bear area and, as a result reduces electric revenues.

Variability of weather from normal temperatures or changes in snow or rainfall can materially impact results of operations. As a result, weather has been and will continue to be one of the dominant factors in our financial performance.

Our business is heavily regulated and, as a result, decisions by regulatory agencies and changes in laws and regulations can significantly affect our business.

Our revenues depend substantially on the rates that we are permitted to charge our customers and our ability to recover our costs in these rates, including the ability to recover the costs of purchased water, groundwater assessments and electric power costs in rates. In April 1999, the CPUC denied our request to recover through rates the costs associated with our participation in the Coastal Aqueduct Extension of the State Water Project. We also have an application pending before the CPUC to include an additional \$1.6 million in rate base for a water treatment plant in SCW's Clearlake service area that was previously disallowed by the CPUC in 1993. In addition, we have an application pending to recover our current energy costs.

We have been adversely affected by electric restructuring in California and the escalation of energy costs attributable thereto. The California Department of Water Resources has attempted to alleviate the crisis by purchasing electricity for Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas and Electric Company, but does not purchase any electricity for our Bear Valley electric division. FERC has taken certain actions intended to stabilize the energy market in the West. These mitigation measures expire on September 30, 2002. Registrant is unable to predict what impact the expiration of these measures will have on electric prices.

Cal ISO expects to propose additional market reforms that may substantially increase the costs of SCW. This could have a material adverse impact on SCW if SCW is unable to recover these increased costs from its ratepayers.

SCW has filed a complaint with FERC seeking a reduction of the rates in its power purchase contract with Mirant Marketing to a just and reasonable price. Registrant is unable to predict the outcome of this proceeding. SCW has also filed an Advice Letter with the CPUC seeking to recover the costs of its power supply costs previously incurred and expected to be incurred under its contracts with Mirant Marketing and Pinnacle West Capital. SCW has reached a settlement regarding the recovery of a substantial portion of these costs. This settlement has not yet been approved by the CPUC.

Our business requires significant capital expenditures.

The utility business is capital intensive. On an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. During calendar years 2001, 2000 and 1999, we spent \$50,253,000, \$45,982,000, and \$51,578,000, respectively, for these purposes. Our budgeted capital expenditures for calendar year 2002 for these purposes are approximately \$56,774,000.

We obtain funds for these capital projects from operations, contributions by developers and others and advances from developers (which must be repaid). We also periodically borrow money or issue equity for these purposes. We maintain bank lines of credit that we can use for these purposes. We cannot assure you that these sources will continue to be adequate or that the cost of funds will remain at levels permitting us to remain profitable.

Accounting Standards

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141

eliminates the pooling-of-interests method of accounting, effective June 30, 2001. After that, all business combinations will be recorded under the purchased method of accounting (record goodwill for excess of costs over the net assets acquired). SFAS No. 142 requires that companies cease amortizing goodwill, effective January 1, 2002. Goodwill initially recognized after June 30, 2001, will not be amortized. Goodwill on the balance sheet at June 30, 2001 will be amortized until January 1, 2002. Under SFAS No. 142, goodwill will be tested for impairment using a fair-value approach when events or circumstances occur indicating that impairment might exist. A benchmark assessment for goodwill is also required within six months of the date of adoption of SFAS No. 142. Registrant has determined that goodwill, \$12,285,000 at December 31, 2001, associated with its acquisition of CCWC is not impaired and effective January 1, 2002 has ceased amortizing this goodwill. In 2001, \$331,073 was amortized against the goodwill.

In June of 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Registrant believes that adoption of this statement will not have a significant impact on its financial position or results of operation.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. Registrant is assessing the impact on future financial reporting related to both past and future transactions, but believes that adoption of this statement will not have a significant impact on its financial position or results of operation.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Registrant has no derivative financial instruments, financial instruments with significant off-balance sheet risks or financial instruments with concentrations of credit risk except for the block-forward purchase power contracts that meet the normal purchase exception rule under FASB 133, "Accounting for Derivative Instruments and Hedging Activities." Under the terms of its power purchase contracts with Mirant Marketing and Pinnacle West Capital, SCW is required to post security, at the request of the seller, if SCW is in default under the terms of the contract. For further information, see the section entitled "*Contractual Obligations and Other Commitments*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Item 8. Financial Statements and Supplementary Data

American States Water Company

Consolidated Balance Sheets - December 31, 2001 and 2000

Consolidated Statements of Capitalization - December 31, 2001 and 2000

Consolidated Statements of Income - for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Changes in Common Shareholders' Equity - for the years ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows - for the years ended December 31, 2001, 2000 and 1999

Southern California Water Company

Balance Sheets - December 31, 2001 and 2000

Statements of Capitalization - December 31, 2001 and 2000

Statements of Income - for the years ended December 31, 2001, 2000 and 1999

Statements of Changes in Common Shareholders' Equity - for the years ended December 31, 2001, 2000 and 1999

Statements of Cash Flows - for the years ended December 31, 2001, 2000 and 1999

Notes to Financial Statements

Report of Management

Report of Independent Public Accountants

AMERICAN STATES WATER COMPANY

Consolidated Balance Sheets

<i>(in thousands)</i>	<i>December 31,</i>	
	2001	2000
Assets		
Utility Plant, at cost		
Water	\$645,185	\$608,032
Electric	38,525	37,630
	683,710	645,662
Less – Accumulated depreciation	(190,656)	(173,367)
	493,054	472,295
Construction work in progress	46,788	36,801
Net utility plant	539,842	509,096
Other Property and Investments	24,104	25,222
Current Assets		
Cash and cash equivalents	30,496	5,808
Accounts receivable-Customers, less reserves of \$972 in 2001; \$510 in 2000	10,557	10,481
Other account receivable	5,306	5,233
Unbilled revenue	12,141	11,363
Materials and supplies, at average cost	970	1,116
Supply cost balancing accounts	25,826	11,145
Prepayments	2,493	4,085
Accumulated deferred income taxes – net	-	3,249
Total current assets	87,789	52,480
Deferred Charges		
Unamortized debt expense and redemption premium	7,540	7,190
Regulatory tax-related assets	15,843	17,705
Other	8,646	4,953
Total deferred charges	32,029	29,848
Total Assets	\$683,764	\$616,646

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

Consolidated Balance Sheets

<i>(in thousands)</i>	<i>December 31,</i>	
	2001	2000
Capitalization and Liabilities		
Capitalization		
Common shareholders' equity	\$199,982	\$192,723
Preferred Shares	1,600	1,600
Preferred Shares – mandatory redemption	280	320
Long-term debt	245,692	176,452
Total capitalization	447,554	371,095
Current Liabilities		
Notes payable to banks	20,000	45,000
Long-term debt and Preferred Shares – current	800	735
Accounts payable	13,931	11,857
Taxes payable	5,389	5,585
Accrued interest	1,945	1,783
Other	21,571	15,257
Total current liabilities	63,636	80,217
Other Credits		
Advances for construction	69,436	69,230
Contributions in aid of construction	43,723	39,670
Accumulated deferred income taxes – net	53,444	51,131
Unamortized investment tax credits	2,882	3,156
Regulatory tax-related liability	1,773	1,817
Other	1,316	330
Total other credits	172,574	165,334
Total Capitalization and Liabilities	\$683,764	\$616,646

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

Consolidated Statements of Capitalization

<i>(In thousands)</i>	<i>December 31,</i>	
	2001	2000
Common Shareholders' Equity:		
Common Shares, no par value, \$2.50 stated value		
Authorized 30,000,000 shares		
Outstanding 10,079,629 in 2001 and 10,079,629 in 2000	\$25,199	\$25,199
Additional paid-in capital	100,239	100,239
Earnings reinvested in the business	74,544	67,285
	199,982	192,723
Preferred Shares: \$25 par value		
Authorized 64,000 shares		
Outstanding 32,000 shares, 4% Series	800	800
Outstanding 32,000 shares, 4 ¼% Series	800	800
	1,600	1,600
Preferred Shares Subject to Mandatory Redemption: \$25 par value, 5% Series		
Authorized and outstanding 12,800 shares in 2001 and 14,400 shares in 2000	320	360
Less: Preferred Shares to be redeemed within one year	(40)	(40)
	280	320
Long-Term Debt		
Notes/Debentures:		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
7.875% notes due 2030	20,000	-
7.23% notes due 2031	50,000	-
Private Placement Notes:		
9.56% notes due 2031	28,000	28,000
Tax-Exempt Obligations:		
5.50% notes due 2026	7,950	7,950
Variable rate obligation due 2014	6,000	6,000
State Water Project due 2035	6,870	6,949
Other Debt Instruments:		
8.50% fixed rate obligation due 2013	1,630	1,714
Variable rate obligation due 2018	589	622
Capital Lease Obligations	425	462
Chaparral City Water Company:		
4% to 4.85% serial bonds due 2007	1,295	1,480
5.20% term bonds due 2011	1,000	1,000
5.40% term bonds due 2022	4,610	4,610
4.65% term bonds due 2006	185	215
5.30% term bonds due 2022	1,015	1,015
3.34% repayment contract due 2006	1,283	1,530
	246,452	177,147
Less: Current maturities	(760)	(695)
	245,692	176,452
Total Capitalization	\$447,554	\$371,095

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

Consolidated Statements of Income

<i>(in thousands, except per share amounts)</i>	<i>For the years ended December 31,</i>		
	2001	2000	1999
Operating Revenues			
Water	\$181,474	\$168,795	\$159,693
Electric	15,251	14,366	13,338
Other	789	799	390
Total operating revenues	197,514	183,960	173,421
Operating Expenses			
Water purchased	37,609	41,592	36,143
Power purchased for resale	19,662	10,664	7,119
Power purchased for pumping	9,592	7,509	7,394
Groundwater production assessment	6,847	7,489	7,170
Supply cost balancing accounts	(14,681)	(6,371)	(473)
Other operating expenses	17,162	16,748	15,594
Administrative and general expenses	35,108	26,135	28,600
Depreciation	17,951	15,339	13,650
Maintenance	8,640	10,280	9,799
Taxes on income	15,379	15,127	13,345
Property and other taxes	7,553	7,141	6,566
Total operating expenses	160,822	151,653	144,907
Operating Income	36,692	32,307	28,514
Other Income			
Total other income - net	(510)	(99)	532
Income before interest charges	36,182	32,208	29,046
Interest Charges			
Interest on long-term debt	13,497	11,623	11,294
Other interest and amortization of debt expense	2,238	2,499	1,651
Total interest charges	15,735	14,122	12,945
Net Income	20,447	18,086	16,101
Dividends on Preferred Shares	(84)	(86)	(88)
Earnings Available For Common Shareholders	\$20,363	\$18,000	\$16,013
Weighted Average Number of Common Shares Outstanding	10,080	9,380	8,958
Basic Earnings Per Common Share	\$2.02	\$1.92	\$1.79
Weighted Average Number of Diluted Shares Outstanding	10,171	9,411	N/A
Fully Diluted Earnings Per Common Share	\$2.00	\$1.91	N/A
Dividends Declared Per Common Share	\$1.30	\$1.285	\$1.28

The accompanying notes are an integral part of these financial statements

AMERICAN STATES WATER COMPANY

Consolidated Statements of Changes in Common Shareholders' Equity

<i>(in thousands)</i>	Common Shares		Additional	Earnings
	Number of	Amount	Paid-in	Reinvested in
	Shares		Capital	the Business
Balances at December 31, 1998	8,958	\$22,394	\$74,937	\$56,968
Add:				
Net Income				16,101
Deduct:				
Dividends on Preferred Shares				88
Dividends on Common Shares - \$1.28 per share				11,466
Balances at December 31, 1999	8,958	\$22,394	\$74,937	\$61,515
Add:				
Net Income				18,086
Issuance of Common Shares for public offering	1,107	2,768	24,924	
Issuance of Common Shares, others	15	37	378	
Deduct:				
Dividends on Preferred Shares				86
Dividends on Common Shares - \$1.28 per share				8,954
Dividends on Common Shares - \$1.285 per share				3,276
Balances at December 31, 2000	10,080	\$25,199	\$100,239	\$67,285
Add:				
Net Income				20,447
Deduct:				
Dividends on Preferred Shares				84
Dividends on Common Shares - \$1.30 per share				13,104
Balances at December 31, 2001	<u>10,080</u>	<u>\$25,199</u>	<u>\$100,239</u>	<u>\$74,544</u>

The accompanying notes are an integral part of these financial statements.

AMERICAN STATES WATER COMPANY

Consolidated Statements of Cash Flows

<i>(in thousands)</i>	<i>For the years ended December 31,</i>		
	2001	2000	1999
Cash Flows From Operating Activities:			
Net income	\$20,447	\$18,086	\$16,101
Adjustments for non-cash items:			
Depreciation and amortization	17,951	15,339	14,364
Deferred income taxes and investment tax credits	7,106	5,848	2,440
Other – net	(383)	(1,043)	1,066
Changes in assets and liabilities:			
Customer receivables	(76)	(616)	(1,555)
Prepayments	1,592	915	1,037
Supply cost balancing accounts	(14,681)	(6,371)	(474)
Accounts payable	2,074	(2,567)	3,559
Taxes payable	(196)	153	(468)
Unbilled revenue	(778)	(18)	(2,042)
Accrued Interest	162	199	179
Other – net	6,387	862	4,803
Net cash provided	<u>39,605</u>	<u>30,787</u>	<u>39,010</u>
Cash Flows From Investing Activities:			
Construction expenditures	(48,149)	(45,758)	(57,823)
Acquisition of Chaparral City Water Company Stock	-	(18,484)	-
Acquisition of Water Rights	-	(1,653)	-
Net cash used	<u>(48,149)</u>	<u>(65,895)</u>	<u>(57,823)</u>
Cash Flows from Financing Activities:			
Issuance of Securities	70,000	28,107	47,028
Receipt of advances for and contributions in aid of construction	6,841	2,512	5,300
Refunds on advances for construction	(4,686)	(2,961)	(2,957)
Retirement or repayments of long-term debt and redemption of Preferred Shares – net	(735)	(616)	(435)
Net change in notes payable to banks	(25,000)	24,000	(17,000)
Common and preferred dividends paid	(13,188)	(12,315)	(11,554)
Net cash provided	<u>33,232</u>	<u>38,727</u>	<u>20,382</u>
Net Increase in Cash and Cash Equivalents	24,688	3,619	1,569
Cash and Cash Equivalents, Beginning of Year	5,808	2,189	620
Cash and Cash Equivalents, End of Year	<u>\$30,496</u>	<u>\$5,808</u>	<u>\$2,189</u>
Taxes and Interest Paid:			
Income taxes paid	\$7,089	\$9,430	\$12,137
Interest paid	<u>\$15,634</u>	<u>\$14,379</u>	<u>\$11,834</u>
Non-Cash Transactions:			
Property installed by developers and conveyed to Company	\$2,104	\$2,570	\$4,096
Assumption of Chaparral’s long-term debt and non-current portion of Customer Deposit	<u>N/A</u>	<u>\$11,425</u>	<u>N/A</u>

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY

Balance Sheets

<i>(in thousands)</i>	<i>December 31,</i>	
	2001	2000
Assets		
Utility Plant, at cost		
Water	\$607,988	\$570,836
Electric	38,525	37,630
	646,513	608,466
Less – Accumulated depreciation	(181,371)	(165,002)
	465,142	443,464
Construction work in progress	46,042	36,605
Net utility plant	511,184	480,069
Other Property and Investments	9,446	9,711
Current Assets		
Cash and cash equivalents	26,079	1,545
Accounts receivable-Customers, less reserves of \$951 in 2001; \$498 in 2000	10,228	10,071
Other	5,202	5,097
Inter-company receivable	-	376
Unbilled revenue	11,940	11,363
Materials and supplies, at average cost	883	1,039
Supply cost balancing accounts	25,826	11,145
Prepayments	2,310	3,756
Accumulated deferred income taxes – net	-	3,256
Total current assets	82,468	47,648
Deferred Charges		
Regulatory tax-related assets	15,843	17,705
Other	15,433	11,396
Total deferred charges	31,276	29,101
Total Assets	\$634,374	\$566,529

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

Balance Sheets

<i>(in thousands)</i>	<i>December 31,</i>	
	2001	2000
Capitalization and Liabilities		
Capitalization		
Common shareholders' equity	\$196,107	\$164,808
Long-term debt	236,804	167,062
Total capitalization	432,911	331,870
Current Liabilities		
Notes payable to banks	-	45,000
Long-term debt and preferred shares – current	300	275
Accounts payable	13,548	11,203
Inter-company payable	26	4,746
Taxes payable	5,599	5,675
Accrued interest	1,877	1,722
Other	21,320	13,512
Total current liabilities	42,670	82,133
Other Credits		
Advances for construction	58,570	58,195
Contributions in aid of construction	43,493	39,642
Accumulated deferred income taxes – net	52,075	49,569
Unamortized investment tax credits	2,882	2,973
Regulatory tax-related liability	1,773	1,817
Other	-	330
Total other credits	158,793	152,526
Total Capitalization and Liabilities	\$634,374	\$566,529

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

Statements of Capitalization

<i>(in thousands)</i>	<i>December 31,</i>	
	2001	2000
Common Shareholders' Equity:		
Common shares, no par value		
Outstanding 100 in 2000 and 110 in 2001	\$123,391	\$98,391
Earnings reinvested in the business	72,716	66,417
	196,107	164,808
 Long-Term Debt		
Notes/Debentures:		
5.82% notes due 2003	12,500	12,500
6.64% notes due 2013	1,100	1,100
6.80% notes due 2013	2,000	2,000
6.87% notes due 2023	5,000	5,000
7.00% notes due 2023	10,000	10,000
7.55% notes due 2025	8,000	8,000
7.65% notes due 2025	22,000	22,000
6.81% notes due 2028	15,000	15,000
6.59% notes due 2029	40,000	40,000
7.875% notes due 2030	20,000	-
7.23% notes due 2031	50,000	-
Private Placement Notes:		
9.56% notes due 2031	28,000	28,000
Tax-Exempt Obligations:		
5.50% notes due 2026	7,950	7,950
Variable rate obligation due 2014	6,000	6,000
State Water Project due 2035	6,870	6,949
Other Debt Instruments:		
8.50% fixed rate obligation due 2013	1,630	1,714
Variable rate obligation due 2018	589	622
Capital Lease Obligations	425	462
	237,064	167,297
Less: Current maturities	(260)	(235)
	236,804	167,062
Total Capitalization	\$432,911	\$331,870

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

Statements of Income

<i>(\$ in thousand, except per share amounts)</i>	<i>For the years ended December 31,</i>		
	2001	2000	1999
Operating Revenues			
Water	\$175,204	\$167,529	\$159,693
Electric	15,251	14,366	13,338
Total operating revenues	190,455	181,895	173,031
Operating Expenses			
Water purchased	37,112	41,450	36,145
Power purchased for resale	19,662	10,664	7,119
Power purchased for pumping	9,169	7,442	7,394
Groundwater production assessment	6,847	7,489	7,170
Supply cost balancing accounts	(14,681)	(6,371)	(473)
Other operating expenses	16,111	16,306	15,475
Administrative and general expenses	33,929	25,545	28,077
Depreciation	16,710	15,086	13,516
Maintenance	8,411	10,191	9,794
Taxes on income	15,066	14,881	13,473
Property and other taxes	7,089	7,037	6,563
Total operating expenses	155,425	149,720	144,253
Operating Income	35,030	32,175	28,778
Other Income			
Total other income - net	(624)	(140)	509
Income before interest charges	34,406	32,035	29,287
Interest Charges			
Interest on long-term debt	13,015	11,512	11,294
Other interest and amortization of debt expense	1,562	2,838	1,651
Total interest charges	14,577	14,350	12,945
Net Income	19,829	17,685	16,342
Earnings Available For Common Shareholder	\$19,829	\$17,685	\$16,342
Basic Earnings Per Common Share	\$185,318	\$176,850	\$163,420
Weighted Average Number of Common Shares Outstanding	107	100	100
Dividends Declared Per Common Share	\$123,000	\$129,000	\$120,400

The accompanying notes are an integral part of these financial statements.

SOUTHERN CALIFORNIA WATER COMPANY

Statements of Changes In Common Shareholders' Equity

<i>(in thousands)</i>	Common Shares		Additional Paid-in Capital	Earnings Reinvested in the Business
	Number of Shares	Amount		
Balances at December 31, 1998	100	\$98,391	-	\$57,330
Add:				
Net Income				16,342
Deduct:				
Dividends on Common Shares - \$30,900 per share				3,090
Dividends on Common Shares - \$30,500 per share				3,050
Dividends on Common Shares - \$29,000 per share				2,900
Dividends on Common Shares - \$30,000 per share				3,000
Balances at December 31, 1999	100	\$98,391	-	\$61,632
Add:				
Net Income				17,685
Deduct:				
Dividends on Common Shares - \$32,000 per share				3,200
Dividends on Common Shares - \$31,000 per share				3,100
Dividends on Common Shares - \$33,000 per share				3,300
Dividends on Common Shares - \$33,000 per share				3,300
Balances at December 31, 2000	100	\$98,391	-	\$66,417
Add:				
Net Income				19,829
Issuance of Common Shares	10	25,000	-	
Deduct:				
Dividends on Common Shares - \$33,000 per share				3,300
Dividends on Common Shares - \$30,000 per share				3,300
Dividends on Common Shares - \$33,000 per share				3,630
Dividends on Common Shares - \$30,000 per share				3,300
Balances at December 31, 2001	110	\$123,391	-	\$72,716

The accompanying notes are an integral part of these financial statements

SOUTHERN CALIFORNIA WATER COMPANY

Statements of Cash Flows

<i>(in thousands)</i>	<i>For the years ended December 31,</i>		
	2001	2000	1999
Cash Flows From Operating Activities:			
Net income	\$19,829	\$17,685	\$16,342
Adjustments for non-cash items:			
Depreciation and amortization	16,710	15,086	14,229
Deferred income taxes and investment tax credits	7,489	5,685	2,430
Other – net	(2,225)	(479)	1,308
Changes in assets and liabilities:			
Customer receivables	(157)	64	(1,640)
Prepayments	1,446	1,095	(1,137)
Supply cost balancing accounts	(14,681)	(6,371)	(474)
Accounts payable	2,345	(2,412)	3,561
Taxes payable	(76)	(25)	(447)
Unbilled revenue	(577)	(18)	(2,042)
Accrued Interest	155	138	179
Other – net	3,515	4,352	7,074
Net cash provided	<u>33,773</u>	<u>34,800</u>	<u>39,383</u>
Cash Flows From Investing Activities:			
Construction expenditures	(47,598)	(45,560)	(57,823)
Net cash used	<u>(47,598)</u>	<u>(45,560)</u>	<u>(57,823)</u>
Cash Flows From Financing Activities:			
Issuance of Securities	95,000	–	47,028
Receipt of advances for and contributions in aid of construction	6,241	2,512	3,883
Refunds on advances for construction	(4,119)	(2,961)	(1,540)
Repayments of long-term debt	(233)	(366)	(395)
Net change in notes payable to banks	(45,000)	24,000	(17,000)
Common dividends paid	(13,530)	(12,900)	(12,040)
Net cash provided	<u>38,359</u>	<u>10,285</u>	<u>19,936</u>
Net Increase (Decrease) in Cash and Cash Equivalents	24,534	(475)	1,496
Cash and Cash Equivalents, Beginning of Year	1,545	2,020	524
Cash and Cash Equivalents, End of Year	<u>\$26,079</u>	<u>\$1,545</u>	<u>\$2,020</u>
Taxes and Interest Paid:			
Income taxes paid	\$6,602	\$9,152	\$12,241
Interest paid	<u>\$14,461</u>	<u>\$14,120</u>	<u>\$11,834</u>
Non-Cash Transactions:			
Property installed by developers and conveyed to Company	<u>\$2,104</u>	<u>\$2,570</u>	<u>\$4,096</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

American States Water Company (AWR) is the parent company of Southern California Water Company (SCW), American States Utility Services, Inc. (ASUS) and Chaparral City Water Company (CCWC). SCW is a public utility engaged principally in the purchase, production, distribution and sale of water in California. SCW also distributes electricity in several California mountain communities. The California Public Utilities Commission (CPUC) regulates SCW's water and electric business, including properties, rates, services, facilities and other matters. CCWC is a public utility regulated by the Arizona Corporation Commission (ACC) serving approximately 11,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. AWR completed the acquisition of the common stock of CCWC on October 10, 2000 for an aggregate value of \$31.2 million, including assumption of approximately \$12 million in debt. ASUS performs non-regulated, water related services and operations on a contract basis. There is no direct regulatory oversight by either the CPUC or the ACC of ASUS or AWR. The consolidated financial statements include the accounts of AWR, SCW, ASUS and CCWC. AWR's assets and revenues are primarily those of SCW.

Note 1 - Summary of Significant Accounting Policies

The consolidated financial statements of AWR include the accounts of AWR and its wholly owned subsidiaries SCW, ASUS and CCWC (collectively referred to as Registrant). Inter-company transactions and balances have been eliminated. The preparation of these financial statements required the use of certain estimates by management in determining Registrant's assets, liabilities, revenues and expenses.

The utility subsidiaries, SCW and CCWC, have incurred various costs and received various credits reflected as regulatory assets and liabilities. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property and Depreciation: SCW and CCWC capitalize, as utility plant, the cost of additions and replacements of retirement units. Such cost includes labor, material and certain indirect charges. Depreciation is computed on the straight-line, remaining-life basis. For the years 2001, 2000 and 1999 the aggregate provisions for depreciation for SCW approximated 2.6%, 2.6% and 2.5% of the beginning of the year depreciable plant, respectively. The aggregate provision for depreciation for CCWC is 2.5% for each of the same three years.

At December 31, 2001, Registrant had \$12,285,000 in goodwill included in Other Property and Investments. This amount represents the difference between the purchase price of the common equity of CCWC and CCWC's book equity at the time of closing and was being amortized over a period of 40 years. Pursuant to FASB No. 142, Goodwill and Other Intangible Assets, AWR has concluded that this goodwill is not impaired at December 31, 2001. As a result, amortization of this goodwill will cease effective January 1, 2002. AWR is required to reassess impairment annually.

Interest: Interest is generally not capitalized for financial reporting purposes as such procedure is not followed for ratemaking purposes.

Revenues: Revenues include amounts billed to customers and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period.

Basic Earnings Per Common Share: Basic Earnings per Common Share are based upon the weighted average number of Common Shares outstanding and net income after deducting preferred dividend requirements.

Fully Diluted Earnings Per Common Share: Diluted Earnings Per Common Share are based upon the weighted average number of Common Shares including both outstanding and shares potentially issued in connection with stock options granted under Registrant's 2000 Stock Incentive Plan, and net income after deducting preferred dividend requirements. At December 31, 2001 and 2000, respectively, there were 91,647 and 45,657 options outstanding.

Supply Cost Balancing Accounts: As permitted by the CPUC prior to November 29, 2001, Registrant maintained water and electric supply cost balancing accounts for SCW to account for under-collections and over-collections of revenues designed to recover such costs. Costs were recorded in income and charged to balancing accounts when such costs were incurred. The balancing accounts were reversed when such costs were recovered through rate adjustments. Registrant accrued interest on its supply cost balancing accounts at the rate prevailing for 90-day commercial paper. On November 29, 2001, the CPUC issued a resolution ordering that water utilities with existing balancing accounts cease booking amounts into these accounts. In its place, the CPUC required water utilities to start a new memorandum account that would work in a manner similar to the balancing account to track the under-collection or over-collection of supply costs for its water utility service areas. In accordance with this resolution, all supply costs will be accounted for and included in the income statement, just as is the case currently. However, the income statements will not include entries in the income statement reflecting the differences between actual unit supply costs included in rates and those actually experienced by SCW for its water utility service areas. Amounts included in deferred costs (balancing accounts) in the balance sheet will continue to be included in such accounts for SCW's Bear Valley Electric division for recovery at a later date in accordance with the pre-November 29, 2001 procedure applicable to both its water and electric supply balancing accounts. SCW, will not be entitled to recover any deferred costs for its water utility service areas unless (i) the utility is within its general rate case cycle and (ii) it is earning less than its authorized rate of return on a weather normalized means test basis. Registrant does not maintain a supply cost balancing account for CCWC.

Debt Issue Expense and Redemption Premiums: Original debt issue expenses are amortized over the lives of the respective issues. Premiums paid on the early redemption of debt, which is reacquired through refunding, are deferred and amortized over the life of the debt issued to finance the refunding. The redemption premium on debt reacquired without refunding is amortized over the remaining period the debt would have been outstanding.

Other Credits: Advances for construction represent amounts advanced by developers, which are generally refundable at rates ranging from 10% to 22% of the revenue received from the installations for which funds were advanced or in equal annual installments over periods of time ranging from 10 to 40-year periods. Contributions-in-aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property. For CCWC, advances for construction represents amounts advanced by developers which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, cash and cash equivalents include short-term cash investments with an original maturity of three months or less.

Financial Instrument Risk: Registrant does not carry any financial instruments with off-balance sheet risk nor does its operations result in concentrations of credit risk except for the block-forward purchase power contracts. Under the terms of its power purchase contracts with Mirant Americas Energy Marketing, LP (Mirant Marketing) and Pinnacle West Capital Corporation (Pinnacle West Capital), SCW is required to post security, at the request of the seller, if SCW is in default under the terms of the contract and the future value of the contract is greater than the future value of contracts of a similar term on the date of default. SCW will be in default under the terms of these contracts if its debt is rated less than BBB- by Standard & Poor's Ratings Service ("S&P") or Fitch, Inc. ("Fitch") or less than Baa3 by Moody's Investor Services, Inc ("Moody's"). SCW currently has a rating of A+ by S & P and A2 by Moody's. Fitch does not rate SCW. These block-forward purchase power contracts meet the normal purchase exception rule under FASB No.133, "Accounting for Derivative Instruments and Hedging Activities."

Fair Value of Financial Instruments: The table below estimates the fair value of each represented class of financial instrument held by Registrant. For cash and cash equivalents, accounts receivable and short-term debt, the carrying amount is used. Otherwise, rates available to Registrant at December 31, 2001 and 2000 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. Changes in the assumptions will produce differing results.

<i>(dollars in thousands)</i>	2001		2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash	\$30,496	\$30,496	\$5,808	\$5,808
Accounts receivable	28,004	28,004	27,077	27,077
Financial liabilities:				
Short-term debt	20,000	20,000	45,000	45,000
Long-term debt	\$246,452	\$260,274	\$177,147	\$186,475

Note 2 - Capital Stock

All of the series of Preferred Shares outstanding at December 31, 2001 are redeemable at the option of AWR. At December 31, 2001, the redemption price per share for each series of \$25 Preferred Shares was \$27.00, \$26.50 and \$25.25 for the 4%, 4 ¼% and 5% Series, respectively, plus accrued and unpaid dividends to the redemption date.

The \$25 Preferred Shares, 5% Series, are subject to mandatory redemption provisions of 1,600 shares per year. The annual aggregate mandatory redemption requirement for this Series for the five years subsequent to December 31, 2001 is \$40,000 each year. AWR intends to redeem or repurchase all of its outstanding Preferred Shares during the first quarter of 2002.

AWR has a Registration Statement on file with the SEC for issuance, from time to time, of up to \$60 million in Common Shares, Preferred Shares and/or debt securities. On August 16, 2000, AWR issued 1,107,000 shares under this Registration Statement. Net proceeds from this sale were used to fund a portion of the purchase price of CCWC and were invested in SCW. As of December 31, 2001, approximately \$31,080,000 remained for issuance under this Registration Statement.

For the year ended December 31, 2001 and December 31, 1999, all shares issued under Registrant's Common Share Purchase and Dividend Reinvestment Plan (DRP) and the 401(k) Plan were purchased on the open market. For the year ended December 31, 2000, Registrant issued 6,961 and 7,997 Common Shares under Registrant's DRP and 401(k) Plan, respectively. There are 493,039 and 63,411 Common Shares authorized but unissued under the DRP and the 401(k) Plan, respectively, at December 31, 2001. Shares reserved for the 401(k) Plan are in relation to Company matching contributions and for investment purposes by participants.

There are 250,000 Common Shares reserved for issuance under Registrant's "2000 Stock Incentive Plan." Under the Plan, stock options representing, 45,657 and 45,999 Common Shares upon exercise were granted to certain eligible employees on May 1, 2000 and January 2, 2001, respectively. The following table sets forth information with respect to all options granted. The fair value for each option granted was determined on the date of grant using the Black-Scholes model.

December 31,	2001	2000
Exercise Price/share	\$34.81	\$31.25
Expiration date	January 1, 2011	April 30, 2010
Risk-free rate of return	5.7%	6.5%
Dividend yield	4.2%	4.0%
Expected volatility	30.5%	28.4%
Fair value/share	\$10.90	\$9.89

One-third of the stock options granted become excisable on each of the first three anniversaries of the grant date, but may be exercised earlier if there is a change in control of the Company. No options were exercised at December 31, 2001.

SCW and CCWC are subject to contractual restrictions on their ability to pay dividends. Dividends in the amount of \$13,530,00 and \$12,900,000 were paid by SCW in 2001 and 2000, respectively. Dividends in an amount of \$1,003,000 were distributed to AWR in 2001 by CCWC. There were no dividends distributed from CCWC to AWR in 2000.

In 1998, the Board of Directors adopted a Shareholder Rights Plan (Rights Plan) and authorized a dividend distribution of one right (a Right) to purchase 1/1000th of Junior Participating Preferred Share for each outstanding Common Share. The Rights Plan became effective in September 1998 and will expire in September 2008. The Rights Plan is designed to provide shareholders' protection and to maximize shareholder value by encouraging a prospective acquirer to negotiate with the board.

Each Right represents a right to purchase 1/1000th of Junior Participating Preferred Share at the price of \$120, subject to adjustment (the Purchase Price). Each Junior Participating Preferred Share is entitled to receive a dividend equal to 1000 times any dividend paid on each Common Share and 100 votes per share in any shareholder election. The Rights become exercisable upon occurrence of a Distribution Date event. A Distribution Date event occurs if (i) any person accumulates 15% of the then outstanding Common Shares, (ii) any person presents a tender offer which caused the person's ownership level to exceed 15% and the board determines the tender offer not to be fair to AWR's shareholders, or (iii) the board determines that a shareholder maintaining a 15% interest in the Common Shares could have an adverse impact on AWR or could attempt to pressure AWR to repurchase the holder's shares at a premium.

Until the occurrence of a Distribution Date, each Right trades with the Common Share and is not separately transferable. When a Distribution Date occurs, AWR would distribute separately Rights Certificates to Common Shareholders and the Rights would subsequently trade separate from the Common Shares and each holder of a Right, other than the acquiring person whose Rights will thereafter be void, will have the right to receive upon exercise at its then current Purchase Price that number of Common Shares having a market value of two times the Purchase Price of the Right. If AWR merges into the acquiring person or enters into any transaction that unfairly favors the acquiring person or disfavors AWR's other shareholders, the Right becomes a right to purchase Common Shares of the acquiring person having market value of two times the Purchase Price.

The board of directors may determine that, in certain circumstances, a proposal, which would cause a distribution of the Rights, is in the best interest of AWR's shareholders. Therefore, the board of directors may, at its option, redeem the Rights at a redemption price of \$0.01 per Right.

Note 3 - Bank Debt

AWR maintained a non-revolving credit facility with a \$25 million aggregate borrowing capacity in 2001. At December 31, 2001, \$20 million was outstanding under this facility. It was subsequently paid off on January 2, 2002. The aggregate short-term borrowing capacity available to SCW under its three bank lines of credit was \$47 million as of December 31, 2001, of which no amount was outstanding. There were no compensating balances required. Loans can be obtained at the option of Registrant and bear interest at rates based on floating prime borrowing rates or at money market rates.

Registrant's short-term borrowing activities for the last three years were as follows:

<i>(in thousands, except percent)</i>	December 31,		
	2001	2000	1999
Balance Outstanding at December 31,	\$20,000	\$45,000	\$21,000
Interest Rate at December 31,	2.82%	7.19%	7.35%
Average Amount Outstanding	\$34,748	\$38,531	\$8,775
Weighted Average Annual Interest Rate	4.65%	7.11%	5.11%
Maximum Amount Outstanding	\$50,000	\$50,000	\$21,000

There were no short-term borrowing activities at ASUS or CCWC.

Note 4 - Long Term Debt

In January 2001, \$20 million of Series C Medium Term Notes were sold with net proceeds from the issuance initially used to repay short-term bank borrowings and, after that, to fund construction expenditures. In 2001 SCW filed a Registration Statement for issuance from time to time of up to \$100 million in debt securities. SCW issued \$50 million in long-term debt in December 2001. The net proceeds were used to repay short-term bank borrowings, with the remaining proceeds used to refund certain existing long-term debt obligations, and for payments for construction, completion,

extension or improvement of facilities. SCW has no mortgage debt, and leases and other similar financial arrangements are not material.

CCWC has long-term Industrial Development Authority Bonds (IDA Bonds) and a repayment contract due 2006. Substantially all of the utility plant of CCWC is pledged to secure its IDA Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios, and (ii) restricts CCWC's ability to incur additional debt, make liens, sell, lease or dispose of assets, merge with another corporation, and pay dividends.

SCW has posted an Irrevocable Letter of Credit, which expires April 30, 2002 in the amount of \$2,513,183 with an annual fee of 0.75% as security for its self-insured workers' compensation plan. SCW has also provided an Irrevocable Letter of Credit with a fee of 0.9%, which expires November 15, 2003, in the amount of \$6,296,000 to a trustee with respect to the variable rate obligation issued by the Three Valleys Municipal Water District. Additionally, in November 2000, SCW posted an Irrevocable Letter of Credit with an annual fee of 0.65%, which expires in October 1, 2002, in the amount of \$250,000 as security for the deductible in the Company's business automobile insurance policy.

Annual maturities of all long-term debt, including capitalized leases, amount to \$759,867, \$13,300,444, \$849,286, \$903,262 and \$662,768 for the five years ending December 31, 2002 through 2006, respectively.

Note 5 - Taxes on Income

Registrant provides deferred income taxes for temporary differences under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), for certain transactions which are recognized for income tax purposes in a period different from that in which they are reported in the financial statements. The most significant items are the tax effects of accelerated depreciation, the supply cost balancing accounts and advances for and contributions-in-aid-of- construction. SFAS No. 109 also requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates. Since the CPUC has consistently permitted the recovery of previously flowed-through tax effects, SCW has established regulatory liabilities and assets offsetting such deferred tax assets and liabilities.

Deferred investment tax credits are being amortized to other income ratably over the lives of the property, giving rise to the credits.

The significant components of deferred tax assets and deferred tax liabilities, as reflected in the balance sheets, and the accumulated net deferred income tax liabilities at December 31, 2001 and 2000 were:

<i>(dollars in thousands)</i>	December 31,	
	2001	2000
Deferred tax assets:		
Other	\$14,934	\$14,969
	14,934	14,969
Deferred tax liabilities		
Depreciation	(48,064)	(46,540)
Other property related	(8,178)	(8,728)
Other non-property related	(2,666)	(4,480)
Balancing accounts	(9,470)	(3,103)
	(68,378)	(62,851)
Accumulated deferred income taxes – net	\$(53,444)	\$(47,882)

The current and deferred components of income tax expense are as follows:

<i>(dollars in thousands)</i>	December 31,		
	2001	2000	1999
Current			
Federal	\$5,312	\$7,991	\$9,360
State	1,612	2,242	2,799
Total current tax expense	6,924	10,233	12,159
Deferred – Federal and State:			
Accelerated depreciation	3,376	3,556	3,405
Balancing accounts	6,436	2,863	(207)
Advances and contributions	–	–	–
California privilege year franchise tax	(1,015)	(1,216)	(970)
Other	(657)	(392)	(664)
Total deferred tax expense	8,140	4,811	1,564
Total income tax expense	15,064	15,044	13,723
Income taxes included in operating expenses	15,379	15,127	13,345
Income taxes included in other income and expenses – net	(315)	(83)	378
Total income tax expense	\$15,064	\$15,044	\$13,723

Additional information regarding taxes on income is set forth in the following table:

<i>(dollars in thousands, except percent)</i>	December 31,		
	2001	2000	1999
Federal taxes on pre-tax income at statutory rates	\$12,426	\$11,595	\$10,438
Increase (decrease) in taxes resulting from:			
State income tax expense	2,900	2,722	2,605
Depreciation	1,424	1,424	1,184
Federal benefit of state taxes	(1,015)	(953)	(912)
Adjustments to prior years' provisions	(686)	101	433
Payment of premium on redemption	66	66	66
Other – net	(51)	89	(91)
Total income tax expense	\$15,064	\$15,044	\$13,723
Pre-tax income	\$35,511	\$33,130	\$29,824
Effective income tax rate	42.4%	45.4%	46.0%

Note 6 - Employee Benefit Plans

Registrant maintains a pension plan (the Plan) that provides eligible employees (those age 21 and older, with one year of service) monthly benefits upon retirement based on average salaries and length of service. The normal retirement benefit is equal to 2% of the five highest consecutive years average earnings multiplied by the number of years of credited service, up to a maximum of 40 years, reduced by a percentage of primary social security benefits. There is also an early retirement option. Annual contributions are made to the Plan, which comply with the funding requirements of the Employee Retirement Income Security Act (ERISA).

Registrant also provides all active employees medical, dental and vision care benefits through a medical insurance plan. Eligible employees who retired prior to age 65, and/or their spouses, were able to retain the benefits under the active plan until reaching age 65. Eligible employees upon reaching age 65, and those employees retiring at or after age 65, and/or their spouses, receive coverage through a Medicare supplement insurance policy paid for by Registrant subject to an annual cap limit.

The CPUC has issued a decision, which provides for the recovery in rates of tax-deductible contributions made to a separate trust fund. In accordance with that decision, Registrant established two separate trusts in 1995, one for those retirees who were subject to a collective bargaining agreement and another for all other retirees. Registrant's funding policy is to contribute annually an amount at least equal to the revenues authorized to be collected through rates for post-retirement benefit costs. Post-retirement benefit costs for 1993, 1994 and 1995 were estimated at a total of \$1.6 million

and have been recorded as a regulatory asset for recovery over a 20-year period. The unamortized balance at December 31, 2001 was approximately \$452,100.

At December 30, 2001, Registrant had 740 participants in the Plan, 74 of these are employees covered by collective bargaining agreements, the earliest of which expires in 2002. The following table sets forth the Plan's funded status and amounts recognized in Registrant's balance sheets and the components of net pension cost and accrued post-retirement liability at December 31, 2001 and 2000:

<i>(dollars in thousands)</i>	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Change in Benefit Obligation:				
Benefit Obligation at beginning of year	\$40,521	\$35,513	\$4,585	\$4,431
Service Cost	1,868	1,530	115	103
Interest Cost	2,877	2,649	335	313
Actuarial Loss/(Gain)	(81)	2,164	159	(32)
Plan Amendment	105	—	—	—
Benefits Paid	(1,460)	(1,335)	(255)	(230)
Benefit Obligation at end of year	\$43,830	\$40,521	\$4,939	\$4,585
Changes in Plan Assets:				
Fair Value of Plan Assets at beginning of year	\$45,105	\$47,776	\$2,058	\$1,760
Actual Return of Plan Assets	(1,641)	(1,336)	(78)	70
Employer Contributions	—	—	468	458
Benefits Paid	(1,460)	(1,335)	(256)	(230)
Fair Value of Plan Assets at end of year	\$42,004	\$45,105	\$2,192	\$2,058
Reconciliation of Funded Status:				
Funded Status	(\$1,826)	\$4,583	(\$2,748)	(\$2,528)
Unrecognized Transition Obligation	—	—	5,449	5,868
Unrecognized Net Loss/(Gain)	2,137	(2,969)	(1,218)	(1,704)
Unrecognized Prior Service Cost	372	311	(2,829)	(3,028)
Prepaid/(Accrued) Pension Cost	\$683	\$1,925	(\$1,345)	(\$1,392)
Weighted-Average Assumptions as of December 31:				
Discount Rate	7.25%	7.25%	7.25%	7.25%
Long-term Rate of Return	8.00%	8.00%	8.00%	8.00%
Salary Assumption	4.00%	4.00%	—	—
Medical Cost Trend Rate	—	—	8.50%	6.00%

A sliding scale for assumed health care cost increase was used for both periods, starting at 6% in 2000 then remaining at 8.5% in 2001 graded down ½percentage point each year to 5% after 7 years.

The components of net periodic post-retirement benefits cost for 2001 and 2000 are as follows:

<i>(dollars in thousands)</i>	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Components of Net Periodic Benefits Cost				
Service Cost	\$1,868	\$1,530	\$115	\$103
Interest Cost	2,877	2,649	335	313
Actual Return on Plan Assets	1,641	1,336	78	(70)
Net Amortization	(5,144)	(5,448)	(106)	23
Net Periodic Pension Cost	\$1,242	\$67	\$422	\$369

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

<i>(dollars in thousands)</i>	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on Total of Service and Interest Cost Components	\$12	(\$10)
Effect on Postretirement Benefit Obligation	\$171	(\$152)

Registrant has a 401(k) Investment Incentive Program under which employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) are based upon a percentage of individual employee contributions and, for 2001, 2000 and 1999, totaled \$953,938, \$968,019, and \$920,340, respectively.

Note 7 - Business Risks and Commitments

Registrant's utility operations are engaged in supplying water and electric service to the public. Registrant is required to provide service and grant credit to customers within its defined service areas. Although Registrant has a diversified base of residential, industrial and other customers, revenues derived from commercial and residential water customers accounted for approximately 91% of total water revenues in 2001, which is about the same percentage as in 2000. Registrant faces additional risks associated with weather conditions, adequacy and quality of water supplies, regulatory decisions, pronouncements and laws, water-related litigation, general business conditions and condemnation.

Approximately 39.6% of SCW's water supply is purchased from wholesalers of imported water, with the remainder produced from Company wells. The long-term availability of imported water supplies is dependent upon, among other things, drought conditions throughout the state, increases in population, water quality standards and legislation that may potentially reduce water supplies. Reservoir storage statewide is at 95% of normal in January of 2002. The Metropolitan Water District of Southern California has publicly assured consumers that it is well prepared to help the region through one or more dry years.

CCWC has a long-term water supply contract with the Central Arizona Water Conservation District through September 2043 and is entitled to take 6,978 acre feet of water per year from the Central Arizona Project (CAP). CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, in any event, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. For the 2001 water year 6,929,200 AF of water flowed into Lake Powell from the Colorado River, which is only 52% of normal. However the Lake itself is currently at 95% of normal level at the end of 2001.

The electric energy environment in California has changed as a result of the December 1995 CPUC decision on restructuring of California's electric utility industry and state legislation passed in 1996. SCW's Bear Valley electric customer service area was exempted by the CPUC from compliance with most of the provisions of the CPUC order and the state legislation.

On January 17, 2001, the Governor of the State of California proclaimed a state of emergency in California due to shortages of electricity available to certain of California's utilities (resulting in blackouts), the unanticipated and dramatic increases in electricity prices and the insufficiency of electricity available from certain of California's utilities to prevent disruption of electric service in California. The reasons for the high cost of energy are under investigation but are reported to include, among other things, limited supply caused by a lack of investment in new power plants to meet growth in demand, planned and unplanned outages of power plants, decreased availability of hydroelectric power from the Pacific Northwest due to lower than usual precipitation and higher demand for electricity in the region, transmission line constraints, increased prices for natural gas, the fuel used in many of the power plants serving the region, and a dysfunctional power market.

All electric energy sold by SCW to customers in its BVE customer service area is purchased from others. In response to the potential for rising electricity costs, SCW entered into block forward purchase contracts with various parties over time. In March 2001, SCW entered into a five-year, block forward purchase contract with Mirant Americas Energy Marketing, LP (Mirant Marketing) to supply its BVE customer service area with 15 MWs of electric energy at a price of \$95 per MWh beginning April 1, 2001 through December 31, 2006. SCW has filed a complaint with the Federal Energy Regulatory Commission seeking to reduce the rates in the Mirant Marketing contract to a just and reasonable price. In June 2001, SCW executed a three-year, block forward purchase agreement with Pinnacle West Capital

Corporation for an additional 8 MWs of electric energy to meet BVE's peak winter demands at a price of \$75 per MWh for the first year, \$48 per MWh for the second year and \$36 per MWh for the third year. The average minimum load at SCW's Bear Valley Electric customer service area has been approximately 12 MWs. The average winter load has been 18 MWs with a winter peak of 38 MWs when the snowmaking machines at the ski resorts are operating

On February 8, 2002, a settlement agreement among SCW, all intervening parties and the Office of Ratepayer Advocates ("ORA") was filed with the CPUC that will permit SCW to recover \$77 per MWh of purchased power costs through rates. SCW will only be allowed to include up to a weighted annual energy purchase cost of \$77 per MWh each year for 10 years in its balancing account. To the extent SCW's actual average annual weighted cost for purchased power is less than \$77 per MWh, the differential will recover amounts included in the electric supply balancing account. Conversely, to the extent that actual average annual weighted costs for power purchased exceed the \$77 per MWh amount, SCW will not be able to include these amounts in its balancing account and such amounts will be expensed against income. SCW has established approximately \$7.9 million in reserves as of December 31, 2001 against potential non-recovery of electric power costs. In addition, the settlement extended the previously approved surcharges for an additional five years to allow SCW an opportunity to collect amounts remaining in its electric cost balancing account. The proposed settlement also requires SCW to pursue its complaint filed with FERC in which SCW has requested FERC to reduce the prices in its power purchase contract with Mirant Marketing to just and reasonable prices. A final decision in this matter is expected during the second quarter of 2002. Management believes the CPUC will support the settlement agreement, but is unable to predict when or if the CPUC will authorize recovery of any or all of the costs agreed to in the settlement. For further information, see the sections entitled "*Liquidity and Capital Resources*" and "*Electric Energy Situation in California*" included in Part II, Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operation.

Demand for energy in SCW's Bear Valley Electric customer service area generally has been increasing. However, the ability of SCW to deliver purchased power to these customers is limited by the ability of the transmission facilities owned by Southern California Edison Company to transmit this power. In order to meet these increasing energy demands, SCW is considering a number of options including (i) the purchase of electric energy from on-site generation facilities installed by a third party, (ii) the use of portable generation, and (iii) the installation of generation owned by Registrant. Each of these options is expected to result in further increases in electric energy prices for customers of SCW's BVE customer service area.

Note 8 - Contingencies

SCW has been named as a defendant in twenty lawsuits that allege that SCW and others delivered unsafe water to their customers. Plaintiffs in these actions seek damages, including general, special, and punitive damages, according to proof at trial, as well as attorney's fees on certain causes of action, costs of suit, and other unspecified relief. Seventeen of the lawsuits involve customer service areas located in Los Angeles County in the southern portion of California; three of the lawsuits involve a customer service area located in Sacramento County in northern California. On September 1, 1999, the Court of Appeal in San Francisco held that the CPUC had preemptive jurisdiction over regulated public utilities and ordered dismissal of a series of these lawsuits. On October 11, 1999, one group of plaintiffs appealed the decision to the California Supreme Court.

On February 4, 2002, the California Supreme Court concluded that (i) the CPUC had preemptive jurisdiction over claims seeking injunctive relief and claims based on the theory that a public utility regulated by the CPUC provided unsafe drinking water even though it had complied with federal and state drinking water standards, but (ii) the CPUC did not have preemptive jurisdiction over damage claims alleging violations of federal and state drinking water standards by public utilities regulated by the CPUC. As a result, damage claims based on allegations of violations of federal and state drinking water standards may proceed while the other claims must be dismissed. In light of the breadth of plaintiffs' claims, the lack of factual information regarding plaintiffs' claims and injuries, if any, the impact of the California Supreme Court decision on plaintiff's claims and the fact that no discovery has yet been completed, SCW is unable at this time to determine what, if any, potential liability it may have with respect to claims based on allegations of violation of federal and state drinking water standards.

On October 25, 1999, SCW filed a lawsuit against the California Regional Water Quality Control Board (CRWQCB) alleging that the CRWQCB has willfully allowed portions of the Sacramento County Groundwater Basin to be injected with chemical pollution that is destroying the underground water supply in SCW's Rancho Cordova customer service area. Management cannot predict the likely outcome of this proceeding.

In a separate case, also filed on October 25, 1999, SCW sued Aerojet-General Corporation (Aerojet) for causing the contamination of the Sacramento County Groundwater Basin. On March 22, 2000, Aerojet filed a cross complaint against SCW for negligence and constituting a public nuisance. Registrant is unable to determine at this time what, if any, potential liability it may have with respect to the cross complaint, but intends to vigorously defend itself against these allegations. Management cannot predict the likely outcome of this proceeding.

The CPUC has authorized memorandum accounts to allow for recovery of costs incurred by SCW in prosecuting the cases against CRWQCB and Aerojet from customers, less any recovery from the defendants or others. As of December 31, 2001, approximately \$6,640,000 has been recorded in the memorandum accounts. The CPUC has authorized SCW to increase rates, effective April 28, 2001, for recovery over a six-year period of approximately \$1,800,000, in expenses that were incurred on or before August 31, 2000. SCW will continue to file additional Advice Letters to recover the remaining costs. Management believes these costs are recoverable but cannot give assurance that the CPUC will ultimately allow recovery of all or any of the remaining costs through rates.

On April 25, 2001, Registrant filed a lawsuit against all the potentially responsible parties, who stored, transported and dispensed gasoline containing methyl tertiary butyl ether (MTBE) in underground storage tanks, pipelines or other related infrastructure. MTBE contaminated water exists in areas of the basin from which SCW has pumped water through its Charnock Well Field. As a result, SCW ceased operation of its Charnock Well Field in October 1996. Registrant has reached an agreement in this matter that assigns the prosecution of litigation against the potentially responsible parties to the City of Santa Monica, California (Santa Monica). As part of the agreement and in exchange for an assignment payment, Santa Monica will prosecute the case against the potentially responsible parties. Registrant expects that Santa Monica will sign the agreement by the end of the first quarter of 2002.

SCW has been, in conjunction with the Southern California Edison (Edison) unit of Edison International, planning to upgrade transmission facilities to 115kv (the 115kv Project) in order to meet increased energy and demand requirements for SCW's Bear Valley Electric Service area. On December 27, 2000, SCW filed a lawsuit against Edison for declaratory relief and seeking damages for breach of contract as a result of delays in the 115kv Project. Subsequently Edison filed a cross-complaint against SCW for breach of contract, anticipatory breach and quantum meruit. Registrant has discussed various settlement options with Edison regarding this matter. However, management cannot predict the likely outcome of either the negotiations or the lawsuits.

Under the terms of an energy purchase contract with Dynegy Power Marketing, Inc. (DYPM) that expires on April 30, 2002, DYPM has agreed to provide electric energy to SCW in excess of the amounts it has purchased under the forward block purchase contracts previously described, to sell excess energy purchased by SCW under the terms of these contracts, if requested by SCW, and to act as scheduling coordinator for SCW. However, SCW has entered into a separate agreement for Automated Power Exchange, Inc. to act as its scheduling coordinator and will not utilize the services of DYPM. SCW has withheld payment on \$3.4 million invoiced by DYPM for the period December 20, 2000 through February 20, 2001, pending resolution of certain disputes. Most of this amount is included in the electric supply cost balancing account. Based on information available to it, Registrant expects the amount in dispute to increase.

Management believes that proper insurance coverage and reserves are in place to insure against property, general liability and workers' compensation claims incurred in the ordinary course of business.

Note 9 - Construction Program

Registrant's 2002 construction budget provides for gross expenditures of approximately \$64.5 million; \$8.7 million of this amount is to be obtained from developers and others. CCWC has a net capital budget of \$1.4 million for 2002. AWR and ASUS have no material capital commitments. However, ASUS actively seeks opportunities to own, lease or operate municipal water and wastewater systems, which may involve significant capital commitments.

Note 10 - Allowance for Doubtful Accounts

The table below presents Registrant's provision for doubtful accounts charged to expense and accounts written off, net of recoveries. Provisions included in 2001 represent both SCW and CCWC. Provisions in 2000 and 1999 represent SCW only.

<i>(dollars in thousands)</i>	December 31,		
	2001	2000	1999
Balance at beginning of year	\$510	\$487	\$403
Provision charged to expense	1,033	630	852
Accounts written off, net of recoveries	(571)	(607)	(768)
Balance at end of year	\$972	\$510	\$487

Neither AWR parent nor ASUS have established any provision for doubtful accounts.

Note 11 - Business Segments

AWR has three principal business units: water and electric distribution units, through its SCW subsidiary, a water-service utility operation conducted through its CCWC unit, and a non-regulated activity unit through the ASUS subsidiary. All activities of SCW currently are geographically located within California. All activities of CCWC are located in the state of Arizona. All activities of ASUS are conducted in California and Arizona. Both SCW and CCWC are regulated utilities. On a stand-alone basis, AWR has no material assets other than its investments in its subsidiaries. The tables below set forth information relating to SCW's operating segments, CCWC and non-regulated businesses. Included in the amounts set forth, certain assets, revenues and expenses have been allocated. The identifiable assets are net of respective accumulated provisions for depreciation.

<i>(dollars in thousands)</i>	Year Ended December 31, 2001				
	SCW		CCWC	Non-	Consolidated
	Water	Electric	Water	Regulated*	AWR
Operating revenues	\$175,204	\$15,251	\$6,270	\$789	\$197,514
Operating income before income taxes	54,037	(3,941)	1,915	60	52,071
Identifiable assets	484,002	27,182	28,658	—	539,842
Depreciation expense	15,264	1,446	1,241	—	17,951
Capital additions	\$47,447	\$2,256	\$550	—	\$50,253

<i>(dollars in thousands)</i>	Year Ended December 31, 2000				
	SCW		CCWC	Non-	Consolidated
	Water	Electric	Water	Regulated*	AWR
Operating revenues	\$167,529	\$14,366	\$1,266	\$799	\$183,960
Operating income before income taxes	42,542	4,520	292	80	47,434
Identifiable assets	453,538	26,531	29,027	—	509,096
Depreciation expense	13,685	1,401	253	—	15,339
Capital additions	\$43,483	\$2,303	\$196	—	\$45,982

<i>(dollars in thousands)</i>	Year Ended December 31, 1999				
	SCW		CCWC	Non-	Consolidated
	Water	Electric	Water	Regulated*	AWR
Operating revenues	\$159,693	\$13,338	N/A	\$390	\$173,421
Operating income before income taxes	38,430	3,821	N/A	(392)	41,859
Identifiable assets	423,870	25,725	N/A	—	449,595
Depreciation expense	12,172	1,344	N/A	134	13,650
Capital additions	\$49,405	\$2,173	N/A	—	\$51,578

* Includes amounts from ASUS and AWR parent.

Note 12 - Selected Quarterly Financial Data (Unaudited)

The quarterly financial information presented below is unaudited. The business of Registrant is of a seasonal nature and it is management's opinion that comparisons of basic earnings for the quarter periods do not reflect overall trends and changes in Registrant's operations.

<i>(in thousands, except per share Amounts)</i>	Operating Revenues		Operating Income		Net Income		Basic Earnings per Share	
	2001	2000	2001	2000	2001	2000	2001	2000
First Quarter	\$40,291	\$38,749	\$7,223	\$6,202	\$3,117	\$2,895	\$0.31	\$0.32
Second Quarter	49,870	45,428	9,013	7,525	5,053	3,919	0.50	0.44
Third Quarter	59,410	55,248	13,372	11,791	9,454	8,218	0.94	0.86
Fourth Quarter	47,943	44,535	7,084	6,788	2,823	3,053	0.28	0.30
Year	\$197,514	\$183,960	\$36,692	\$32,307	\$20,447	\$18,086	\$2.02	\$1.92

Report of Management

The consolidated financial statements contained in the annual report were prepared by the management of American States Water Company, which is responsible for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles and include, where necessary, amounts based upon management's best estimates and judgments. All other financial information in the annual report is consistent with the consolidated financial statements and is also the responsibility of management.

Registrant maintains systems of internal control, which are designed to help safeguard, the assets of Registrant and provide reasonable assurance that accounting and financial records can be relied upon to generate accurate financial statements. These systems include the hiring and training of qualified personnel, appropriate segregation of duties, delegation of authority and an internal audit function, which has reporting responsibility to the Audit Committee of the board of directors.

The Audit Committee, composed of three outside directors, exercises oversight of management's discharge of its responsibilities regarding the systems of internal control and financial reporting. The committee periodically meets with management, the internal auditor and the independent accountants to review the work and findings of each. The committee also reviews the qualifications of, and recommends to the board of directors, a firm of independent accountants.

The independent accountants, Arthur Andersen LLP, have performed an audit of the consolidated financial statements in accordance with generally accepted auditing standards. Their audit gave consideration to Registrant's system of internal accounting control as a basis for establishing the nature, timing and scope of their work. The result of their work is expressed in their Report of Independent Public Accountants.

s/ FLOYD E. WICKS
Floyd E. Wicks
President, Chief Executive Officer

s/ McCLELLAN HARRIS III
McClellan Harris III
Chief Financial Officer,
Vice President - Finance,
Treasurer and Corporate Secretary

March 4, 2002

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of American States Water Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of American States Water Company and its subsidiaries, and the balance sheets and statements of capitalization of Southern California Water Company (California corporations), as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001 of American States Water Company and the related statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001 of Southern California Water Company. These financial statements are the responsibility of the Registrant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American States Water Company and its subsidiaries, and Southern California Water Company, as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

s/ Arthur Andersen LLP
Arthur Andersen LLP
Los Angeles, California

February 14, 2002

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information responsive to Part III, Item 10 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

Item 11. Executive Compensation

Information responsive to Part III, Item 11 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and "Performance Graph" and is incorporated herein by reference pursuant to General Instruction G(3).

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information responsive to Part III, Item 12 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and "Executive Officers - Experience, Security Ownership and Compensation" and is incorporated herein by reference pursuant to General Instruction G(3).

Item 13. Certain Relationships and Related Transactions

Information responsive to Part III, Item 13 is included in the Proxy Statement, to be filed by Registrant with the Commission pursuant to Regulation 14A, under the captions therein entitled "Election of Directors" and is incorporated herein by reference pursuant to General Instruction G(3).

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

- (a)
 - 1. Reference is made to the Financial Statements incorporated herein by reference to Part II, Item 8 hereof.
 - 2. All required schedules may be found in the Financial Statements and Notes to Financial Statements incorporated herein by reference to Part II, Item 8 hereof or at the conclusion of this Item. Schedules II, III, IV, and V are omitted as they are not applicable.
- (b) No Reports of Form 8-K were filed during the fourth quarter of 2001.
- (c) Exhibits -
 - 3.1 By-Laws of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.
 - 3.2 By-laws of Southern California Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
 - 3.2.1 Amended and Restated By-laws of Southern California Water Company.

- 3.3 Amended and Restated Articles of Incorporation of American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated November 2, 1998. Commission File No. 333-47647.
- 3.3.1 Certificate of Amendment of Amended and Restated Articles of Incorporation, dated August 25, 1998, of American States Water Company incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 3.3.2 Certificate of Amendment of Amended and Restated Articles of Incorporation of American States Water Company, dated August 25, 1999 incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.
- 3.3 Restated Articles of Incorporation of Southern California Water Company incorporated herein by reference to Registrant's Form 8-K, dated January 20, 1999. Commission File No. 000-01121.
- 4.1 Amended and Restated Rights Agreement, dated January 25, 1999, by and between American States Water Company and ChaseMellon Shareholder Services, L.L.C., as Rights Agent incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 4.2 Indenture, dated September 1, 1993 between Southern California Water Company and Chemical Trust Company of California incorporated herein by reference to Registrant's Form 8-K. Registration No. 33-62832.
- 10.1 Agreement of Merger dated as of June 25, 1998 by and among Southern California Water Company, SCW Acquisition Corp. and American States Water Company incorporated herein by reference to Registrant's Form 8-K, dated July 1, 1998. Commission File No. 333-47647.
- 10.2 Deferred Compensation Plan for Directors and Executives incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.⁽²⁾
- 10.3 Reimbursement Agreement, dated September 1, 2000, between Southern California Water Company and Bank of America, N.A. incorporated herein.
- 10.4 Second Sublease dated October 5, 1984 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by reference to Registrant's Registration Statement on Form S-2. Registration No. 33-5151.
- 10.5 Note Agreement dated as of May 15, 1991 between Southern California Water Company and Transamerica Occidental Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.
- 10.6 Schedule of omitted Note Agreements, dated May 15, 1991, between Southern California Water Company and Transamerica Annuity Life Insurance Company, and Southern California Water Company and First Colony Life Insurance Company incorporated herein by reference to Registrant's Form 10-Q with respect to the quarter ended June 30, 1991. Commission File No. 000-01121.
- 10.7 Loan Agreement between California Pollution Control Financing Authority and Southern California Water Company, dated as of December 1, 1996 incorporated by reference to Registrant's Form 10-K for the year ended December 31, 1998. Commission File No. 001-14431.
- 10.8 Agreement for Financing Capital Improvement dated as of June 2, 1992 between Southern California Water Company and Three Valleys Municipal Water District incorporated herein by

reference to Registrant's Form 10-K with respect to the year ended December 31, 1992. Commission File No. 000-01121.

- 10.9 Water Supply Agreement dated as of June 1, 1994 between Southern California Water Company and Central Coast Water Authority incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1994. Commission File No. 000-01121.
- 10.10 Amended and Restated Retirement Plan for Non-Employee Directors of American States Water Company, dated as of October 25, 1999, incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.⁽²⁾
- 10.11 Dividend Reinvestment and Common Share Purchase Plan incorporated herein by reference to American States Water Company Rule 424 (b) (3) filing dated October 27, 1999. Commission File No. 333-88979.
- 10.12 Key Executive Long-Term Incentive Plan incorporated herein by reference to Registrant's 1995 Proxy Statement, Commission File No.00 0-01121.⁽²⁾
- 10.13 Energy Management Services Agreement between Southern California Water Company and Dynegy Power Marketing.
- 10.14 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between American States Water Company, Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.⁽²⁾
- 10.15 Amended and Restated Change in Control Agreements, dated as of October 25, 1999, between Southern California Water Company and certain executives incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.⁽²⁾
- 10.16 Southern California Water Company Pension Restoration Plan incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 2000.⁽²⁾
- 10.17 American States Water Company Annual Incentive Plan as amended April 23, 2001.⁽²⁾
- 10.18 American States Water Company 2000 Stock Incentive Plan. Commission File No. 333-39482.⁽²⁾
- 10.19 Loan and Trust Agreement between The Industrial Development Authority of The County of Maricopa, Chaparral City Water Company and Bank One, Arizona, NA., dated as of December 1, 1997.
- 10.20 Delivery Agreement between Central Arizona Water Conservation District and Chaparral City Water Company, dated as of December 6, 1984.
- 10.21 Repayment Contract between the United States Bureau of Reclamation and Chaparral City Water Company, dated as of December 6, 1984 for construction of a delivery and storage system to transport CAP water.
- 10.22 Energy Transaction Confirmation with Mirant Americas Energy Marketing, LP.
- 10.23 Power Purchase Agreement between Southern California Water Company and Pinnacle West Capital Corporation.
- 10.24 Western Systems Power Pool Agreement
- 10.25 Automated Power Exchange Master Service and Participation Agreement.⁽¹⁾

21. Subsidiaries of Registrant incorporated herein by reference to Registrant's Form 10-K with respect to the year ended December 31, 1998. Commission File No. 001-14431.

23. Consent of Independent Public Accountants. ⁽¹⁾

(d) None.

⁽¹⁾ Filed concurrently herewith

⁽²⁾ Management contract or compensatory arrangement

Report of Independent Public Accountants on Supplemental Schedule

To American States Water Company:

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated financial statements included in this Form 10-K, and have issued our report thereon dated February 14, 2002. Our audits of the consolidated financial statements were made for the purpose of forming an opinion on those basic consolidated financial statements taken as a whole. The supplemental schedule listed in Part IV of this Form 10-K is the responsibility of American States Water Company's management, and is presented for purposes of complying with the Securities and Exchange Commission's rules, and is not part of the basic consolidated financial statements. This supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

s/ Arthur Andersen LLP
Arthur Andersen LLP
Los Angeles, California

February 14, 2002

AMERICAN STATES WATER COMPANY
Schedule I - Condensed Financial Information of Parent

Condensed Balance Sheets

<i>(in thousands)</i>	<i>December 31,</i>	
	2001	2000
Assets		
Cash and equivalents	\$523	\$294
Other current assets	244	4,738
Total current assets	767	5,032
Investments in subsidiaries	220,706	189,383
Other deferred debits	115	121
Total assets	\$221,588	\$194,536
Liabilities and Capitalization		
Notes payable to banks	\$20,000	\$ -
Accounts payable	7	5
Other current liabilities	(281)	(112)
Total current liabilities	19,726	(107)
Common shareholders' equity	199,982	192,723
Preferred shares	1,880	1,920
Total capitalization	201,862	194,643
Total liabilities and capitalization	\$221,588	\$194,536

Condensed Statements of Income

<i>(in thousands except per share amount)</i>	<i>December 31,</i>	
	2001	2000
Operating Revenue And Other Income	-	-
Operating Expenses	\$403	\$(206)
Income (Loss) Before Equity in Earnings of Subsidiaries	(403)	206
Equity in Earnings of Subsidiaries	20,850	17,880
Net Income	20,447	18,086
Dividends on Preferred Shares	(84)	(86)
Earnings Available For Common Shareholders	\$20,363	\$18,000
Weighted Average Number of Common Shares Outstanding	10,080	9,380
Basic Earnings Per Common Share	\$2.02	\$1.92
Weighted Average Number of Diluted Common Shares Outstanding	10,171	9,411
Fully Diluted Earnings per Common Share	\$2.00	\$1.91

Condensed Statements of Cash Flows

<i>(in thousands)</i>	<i>December 31,</i>	
	2001	2000
Cash Flows From Operating Activities	\$18,457	\$13,075
Cash Flows Used in Investing Activities	(25,000)	(24,340)
Cash Flows From in Financing Activities	6,772	11,390
Increase in Cash and Equivalents	229	125
Cash and Equivalents at Beginning of Period	294	169
Cash and Equivalents at the End of Period	\$523	\$294
Cash dividends received from Southern California Water Company and Chaparral City Water Company	\$13,530	\$12,900

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN STATES WATER COMPANY
and its subsidiary
SOUTHERN CALIFORNIA WATER COMPANY

By: s/ McCLELLAN HARRIS III .
McClellan Harris III
Vice President - Finance, Treasurer,
Chief Financial Officer and Secretary

Date: March 4, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

s/ LLOYD E. ROSS . Date: March 4, 2002
Lloyd E. Ross
Chairman of the Board and Director

s/ FLOYD E. WICKS . March 4, 2002
Floyd E. Wicks
Principal Executive Officer;
President, CEO and Director

s/ McCLELLAN HARRIS III . March 4, 2002
McClellan Harris III
Principal Financial and Accounting Officer;
CFO, VP - Finance, Treasurer and Secretary

s/ LINDA J. MATLICK . March 4, 2002
Linda J. Matlick
Controller - Southern California Water Company

s/ JAMES L. ANDERSON . March 4, 2002
James L. Anderson, Director

s/ JEAN E. AUER . March 4, 2002
Jean E. Auer, Director

s/ N. P. DODGE, JR . March 4, 2002
N. P. Dodge, Jr., Director

s/ ANNE M. HOLLOWAY . March 4, 2002
Anne M. Holloway, Director

s/ ROBERT F. KATHOL . March 4, 2002
Robert F. Kathol, Director